



Building a movement for good

Ecclesiastical
Annual Report
& Accounts
2018

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By working together.



For the good of society.



We're changing lives.

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Section One

About Us

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Being good to do good. That's what shapes the way we do business.

Owned by a charity, we're a commercial business with a purely charitable purpose. This sets us apart from others. We're not afraid to stand up for our communities and what they believe in. Even if that means doing things differently from everyone else.

Ecclesiastical exists to contribute to the greater good of society. We do this by managing a successful, ethically run portfolio of businesses. By giving a significant proportion of our profits to our owner, Allchurches Trust, which donates independently to good causes. By making our own considerable donations. And by helping our customers and partners address the issues that matter to them.

Our strongly held values, together with deep expertise in our chosen markets, give us a competitive edge. And have helped us deliver robust financial returns which in turn help change people's lives for the better. So by daring to be different – and working in a way that's good, not just a little less bad – everyone benefits.

Building a movement for good.

Ecclesiastical at a glance

Who we are

No.1

insurer for charitable giving in the UK

4th largest corporate donor in the UK*
*Directory of Social Change UK Guide to Company Giving 2017-18



£64m

We've donated £64m to charity since 2016*
*Cumulative total



110%

of pre-tax profit to good causes

thanks to strong capital position

£0.59bn

Net assets
(in current and previous year)

£2.7bn

Funds under management
(in current and previous year)



131

years' experience

Established in 1887 to provide fire protection to Anglican churches



Three time award winners

at the Post Claims Awards 2018 for excellence in customer care



What we do



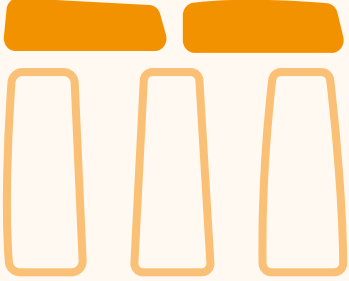
Main insurer for the UK's Grade 1 listed buildings

Insuring synagogues and mosques in all our territories



Since the 1880s

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



Award winning ethical investment

Moneyfacts 'Best Ethical Investment Provider' for tenth successive year (2009 to 2018)



Leading multi-faith insurer

Insuring synagogues and mosques in all our territories



Leading insurer for the Anglican church

in all our territories



Insurer of independent schools for 55+ years

Gold standard home insurance

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



47,000+

charities and not for profit organisations insured in the UK alone

Trusted to do the right thing

94%
to 99%



UK overall customer satisfaction across all the sectors we measure

98%

of our UK customers satisfied with how their claim is handled

98% in UK
100% Ireland



90%

of key brokers satisfied with our service



CII Chartered Status

Ecclesiastical UK & Ireland and Lycetts have been awarded Corporate Chartered status by the Chartered Insurance Institute*

*A corporate Chartered title is a commitment to an overall standard of excellence and professionalism, and evidence of commitment to customers, partners and employees.

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

*Independent survey by FWD

Making a difference

Gold Standard for Payroll Giving



We match 100% of what our employees give to charity

Nearly £100,000

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



60%+

of our employees volunteer



£18.8m

given to charity in 2018 (£27.5m in previous year)
£17m to our charitable owner and £1.8m Ecclesiastical Group giving

Overseas giving

Overseas community grant giving to Australia and Canada
AUS\$250,000 to Australia
CAN\$250,000 to Canada

6,000

charities nominated for our 12 Days of Giving campaign

A different kind of business

86%+ve

of staff say 'I am proud to work for this company' (+5% on Financial Services benchmark) (2017: 88%)



78% renewable

Our electricity is sourced from 100% renewable sources

Leading the way in Health and Safety

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

Living Wage accredited

We are a Living Wage Employer

A UK Living Wage employer

Founding signatory of the Women in Finance Charter



Best for developing young people

Canada recognised as Top 100 Employer for Young people for the seventh consecutive year



Our financial performance

£15.4m

profit before tax (£82.2m in previous year)



£29.2m

underwriting result (£27.1m previous year)



86.4%

combined operating ratio, improved by 0.5pp



Our businesses

We are organised into three divisions: Specialist Insurance, Investment Management, and Broking and Advisory. All are underpinned by a reputation for delivering an outstanding service to our customers.

We provide products and services to businesses, organisations and retail customers, both directly and through intermediaries. Operating primarily from the UK, our divisions and their associated companies are:

Specialist Insurance

Ecclesiastical UK / Ansvar UK / Ansvar Australia / Ecclesiastical Canada / Ecclesiastical Ireland

Our insurance businesses offer insurance products and risk management services to customers in the faith, heritage, charity, education and real estate markets.

We have particular expertise in valuing and protecting distinctive properties both old and new – from cathedrals to concert halls, schools to stately homes and iconic modern buildings to youth hostels.

We also provide a discrete range of specialist products including household insurance for churches and congregations and fine art insurance to the high net worth market.

Investment Management

EdenTree Investment Management (EdenTree)

Our multi-award-winning investment management team manages and sells ethically screened and non-screened investment products to institutional customers, including the charity and faith markets, and to retail customers through the advisory market. EdenTree also manages the majority of the Group’s financial investments.

Broking and Advisory

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

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

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

* Part of Ecclesiastical Insurance Group (EIG)

Ecclesiastical UK

Using technology to meet the needs of our customers

For over 130 years, our surveyors have helped to protect the nation's heritage through their expert advice and guidance. Today, we're proud to have one of the strongest in-house risk management teams in the insurance industry, boasting an unrivalled expertise in surveying and valuing the many varied properties we insure. To ensure that we remain at the cutting edge of risk management, we're constantly looking for ways to use technology to improve the service we provide to our customers.

One of our latest ventures is using drones to enhance the specialist advice we provide.*

As the UK's leading insurer of Grade 1 listed buildings, we know better than anyone the unique access and maintenance challenges presented by heritage structures.

Using drones to capture detailed aerial imagery of otherwise inaccessible parts of the structure provides us with invaluable data and insights about the state of the building. We then work in partnership with our customers to review the data, assess the risks and provide specialist advice to mitigate them.

So far we've successfully trialled drones at some of the nation's most important buildings including Blenheim Palace and Worcester Cathedral, as well as schools and churches across the country.

The technology has huge benefits for our customers and the data gathered also enables us to create 3D building models from which we can more accurately calculate reinstatement or restoration values with more certainty, reducing the risk of underinsurance.

"Blenheim Palace has been a customer of Ecclesiastical for a number of years and we were delighted to help trial this new technology. The images captured by the drone were incredibly detailed and provided a unique perspective on this magnificent building, showing us parts of the structure that are usually inaccessible. I believe this technology will help to transform the way Ecclesiastical helps its clients to manage their risks."

Richard Bowden

Historic Buildings and Conservation Surveyor
Blenheim Palace

*Filming with a drone is not permitted onsite without prior consent and approval of the necessary insurance and licence documents.

Building a movement for good



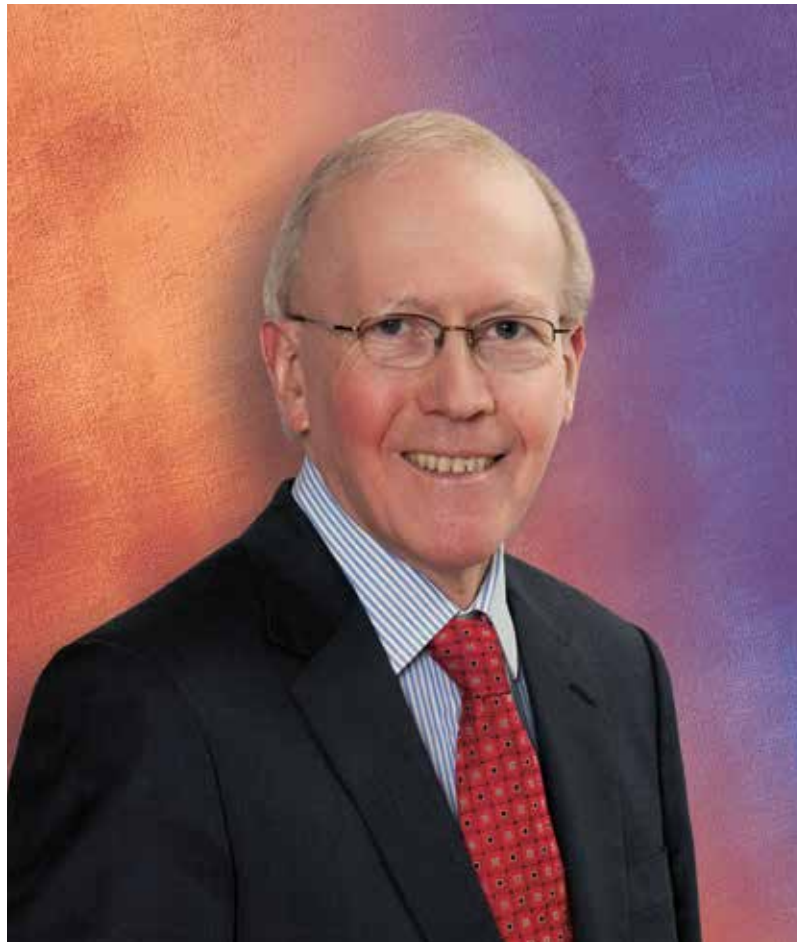
Section Two

Strategic Report

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Chairman's Statement

In 2018 the Group delivered another strong set of underwriting results,* underpinned by its pursuit of sustainable, profitable growth over the longer term.



A strong underwriting performance

Performance remained robust, with underwriting profit of £29.2m (2017: £27.1m) and GWP growth across all our territories. Pre-tax profits of £15.4m (2017: £82.2m) were lower than in recent years, reflecting the effect of short-term stock market fluctuations on our investment portfolio. Nonetheless, these results and our underlying financial strength enabled us to make donations of £17.0m to our charitable owner and £1.8m to the causes we support directly.

* Alternative performance measure, refer to note 35

Putting customers first

I have been privileged to be a member of the Ecclesiastical Board since 2007. As I step down after two years as its chair, I have been reflecting on the differences that drew me to Ecclesiastical 11 years ago, and which remain intrinsic to the Group today.

We are a specialist financial services group with a portfolio of insurance, investment management, broking and advisory businesses that are quite different from each other. Yet all these businesses are united by a common purpose – they put the customer at the centre of everything they do.

I believe that our aim of being the most expert, trusted and ethical provider in our specialist markets has seen us take customer care to a very different level. In an increasingly commoditised world, we still take the time to understand their particular issues and needs, as befits a true specialist. Thanks to that understanding, we provide products, services and advice that are right for them. And when they are in difficulty, we respond with exceptional levels of service and care.

I mentioned last year how struck I have been by the positive and affectionate feedback we receive from those who know us. It speaks to the emphasis we place on understanding and looking after our communities, both through our work and our charitable support.

Energy and pace

The Ecclesiastical Group has been through a significant period of change during my tenure. In the last five years in particular, an ambitious change programme has been central to the Group's turnaround and consistent financial performance. In that time, we have seen a strengthening of our core insurance business and ongoing development of all the companies in our portfolio.

As a result, we have delivered on one ambitious target of giving £50m to good causes and we are well on the way to reaching our current goal of giving £100m by the end of 2020.

I applaud the energy of leadership that has taken our Group forward with such pace, by harnessing its distinctive strengths – a deep understanding of customers' needs, true specialism in our chosen sectors and the unique charitable purpose that sets us apart.

Governance

In 2018 we reached a major milestone, securing approval from the Prudential Regulation Authority for our internal model to meet the Solvency II regulations for insurance firms. In doing so, we have provided our Board and management team with important tools to improve the Group's risk management framework, measure performance and ensure that its decisions contribute to our capital strength.

Board developments

During the year two non-executive directors, Denise Wilson and Anthony Latham, retired from the Board after eight and ten years' service respectively. I would like to express my particular thanks to them, for the valuable expertise they brought to the Group during a period of considerable change.

In January 2019 it was announced that with effect from 19 March 2019, I will step down as chairman and David Henderson, who has been on the Board since 2016, will take my place. Also during the year Ian Campbell left the Group after four years as our Group Chief Financial Officer. We thank Ian for his service to the Group and wish him well in his future career.

The Ecclesiastical Board is strong and diverse, with an unflagging commitment to the Group and its future. It says much about Ecclesiastical that it is able to attract Board members of their calibre, given the relatively small scale of the Group. The skills of my fellow directors are exceptional and I would like to thank them all for their insight and support over the past year.

Our people

This also holds true for our employees. Over the years I have been continually impressed by the exceptional ability of our people. Above all, I have been inspired by their propensity to go above and beyond the call of duty as a matter of course, whether caring for their customers, improving business performance or supporting good causes. This, I believe, speaks to the culture that is fostered by our charitable purpose.

I will miss many things when I leave Ecclesiastical, but it is these good and talented people whom I will miss most. On behalf of the Board, I would like to thank and congratulate them for the successes of 2018 and wish them well as they forge an exciting future for the Group.

In support of our established diversity policy, 2018 saw us publish our second gender pay gap report, which shows a falling pay gap due to a higher proportion of senior roles being filled by women. We also published our progress against the Women in Finance Charter; two years since signing up to its goals, we were pleased to report that women now make up 29.9% of our senior management roles compared with 23.3% in 2017.

Looking to the future

As you would expect, I wish the Group the most successful of futures. But what does that actually mean? For me, the Group's future success lies in continuing to do what we do well – creating competitive advantage from our deep understanding of customers' needs, our position as a trusted specialist and our responsible approach to doing business.

The Group's success also lies in taking what we do well to a bigger audience, so that a broader group of customers and partners can benefit from the unique products and services we offer. With motivated teams across the Group and a robust change programme that has already delivered so much, I know that this future is entirely possible.

John Hylands
Chairman

'I believe that our aim of being the most expert, trusted and ethical provider in our specialist markets has seen us take customer care to a very different level. In an increasingly commoditised world, we still take the time to understand their particular issues and needs, as befits a true specialist.'

Ecclesiastical UK

The Scout Association

The Scout Association is the most famous youth organisation in the world and the largest volunteer-led movement for young people in the UK. Every week thousands of young people take part in life-enriching activities at the association's adventure centres across the UK, including Gilwell Park, famous throughout the world for its Scouting heritage, beautiful setting and stunning range of activities.

Ecclesiastical has a long history of insuring Scout troops and in 2018 we secured the Scout Association's business for the first time thanks to the hard work of our sales and underwriting team in building a relationship with the Scout Association's own broker, Unity Insurance Services.

Unity were impressed we carried out a pre-cover survey at Gilwell Park to gain a complete understanding of the risk, and that we were able to tailor a solution through Ansvar for elements of the association's employers' liability cover. This commitment to understanding and meeting the association's needs, coupled with our specialist expertise, were the deciding factors in winning the business.

As a company whose purpose is to contribute to the greater good of society, we are proud to be the insurer for the Scout Association's adventure centres and offices, helping to protect these important places and ensuring they can be enjoyed by young people for generations to come.

"I was impressed with the way Ecclesiastical took time to understand us as an organisation and how they tailored their quotation to fit around us. The overall package was not only competitive but the wider scope of cover meant a far slicker offering and less of a burden on us administratively. We feel reassured that our buildings are now insured for the correct values."

Mark Hislop
Commercial Director
The Scout Association

"The team at Ecclesiastical were easy to deal with, thinking outside of the box to offer broader and wider cover which was highly relevant to our client, and had not been raised by the previous insurer. Ecclesiastical's specialist knowledge in understanding the risks associated with listed property and the underwriting interpretation of this knowledge is reassuring. All in all, the tailored solution for The Scout Association made it straightforward for us to recommend Ecclesiastical as the insurer of choice."

Faizul Ali
Account Executive
Unity Insurance Services

Building a movement for good



A trusted business

In 2018 we again received many external awards for the way we do business

Our UKGI business won Customer Care Solution of the Year

at the Insurance Times Claims Excellence Awards



Top employer for Young People

Canada was awarded Top Employer for Young People status for the 7th consecutive year



Our UKGI business won three awards at the Insurance Post Claims Awards



EdenTree was successful at the Charity Times Awards and took away the Boutique Investment Management award



SEIB won Personal Lines Broker of the year

at the British Claims Awards



Best Ethical Investment Provider

EdenTree won Moneyfacts Best Ethical Investment Provider award for the 10th year running



At the Insurance Age UK Broker Awards 2018, Cliverton won Schemes Broker of the Year



EdenTree wins Best ESG Fund Management Group (Specialist)

at the Investment Week Sustainable & ESG Investment Awards 2018



Our UK Home insurance product was once again placed top of the Fairer Finance tables – awarded twice a year, this is the 8th time running we have achieved this accolade, we also remained top for customer trust and customer happiness

SEIB's marketing team won Young Marketer / PR Employee of the Year

at the Insurance post Insurance Marketing and PR Awards



Chief Executive's Report

Our profits are channelled towards funding good charitable causes.



Here for good

Ecclesiastical exists for just one purpose – to contribute to the greater good of society. That makes us a very different kind of financial services group. Because our profits go to good causes. Because we put customers' needs first. And because we stand up for what we believe in – even if that means doing things differently from everyone else.

Owned by a charity, our profits are channelled towards funding thousands of good charitable causes a year. Whether these are charities that transform the lives of homeless people, the unwell or those suffering from addiction, parish churches that have become community hubs in areas of great deprivation, or organisations that provide young people with the resources to stay safe and well in today's complex world, they share a common goal – to help and protect the most vulnerable in our society.

Our charitable purpose has also shaped the way we do business for over 130 years. Unlike others in our sector, we are driven by more than the need to satisfy short-term shareholder demands.

Our goal is to build a sustainable, values-driven business over the longer term, while putting customers' needs first – especially in times of need or change. This has seen us develop extraordinary levels of customer understanding and care.

Trusted by our communities

This approach has built deep trust within the communities we serve, as evidenced by the roll call of awards and accolades highlighted on previous pages. We are trusted to protect and preserve communities, cultures and heritage worldwide, by insuring palaces and castles, World Heritage sites and opera houses, schools and activity centres, churches, temples and other treasured properties. And our advisory, broking and investment businesses are trusted to provide award-winning services that have the customer's interests at heart.

Giving to our communities

Our results and our underlying financial strength enabled us to make donations of £18.8m during the year, to our charitable owner and to the causes we support directly. We have now given £64m of the £100m by the end of 2020 target we set ourselves in April 2016.

Based on the latest rankings, Ecclesiastical is the fourth largest corporate donor in the UK and the top-ranking insurance sector donor – indeed, the only insurer in the top ten. This is a considerable achievement of which we are very proud, particularly as by any measure of size or scale we are significantly smaller than any of the other top ten ranked businesses.

A resilient business

In 2018 we achieved a fifth year of sound financial performance, underpinned by our focus on delivering sustainable, profitable long-term growth. I am pleased to report that in 2018 we continued to deliver against our charitable purpose, with a pre-tax profit of £15.4m (2017: £82.2m) and GWP growth of 4.1% to £357.0m. This result includes excellent underwriting profits of £29.2m (2017: £27.1m), investment income of £35.3m (2017: £36.5m) and fair value losses of £31.3m (2017: gains of £35.8m).

Our strong solvency ratio and long-term perspective enable us to hold a relatively high proportion of higher risk investment assets, designed to deliver strong returns over the longer term. Market downturns towards the end of the year, prompted by persistent concerns over Brexit, global trade and slowing economic growth, impacted our investment returns following two exceptionally positive years. However, our long-term stance is unmoved and the market downturn has presented some exceptional equity investment opportunities.

We reaped the benefit of holding a diverse portfolio of companies during the year, not least in the insurance business where the impact of adverse weather in Canada was offset by benign conditions elsewhere.

The UK and Ireland business achieved GWP growth of 4.8%, with particularly strong contributions from the Real Estate and Art & Private Client sectors in the UK and the Education sector in Ireland.

A strong underwriting profit of £29.4m (2017: £32.7m) benefited from significant prior year releases and a low level of weather claims.

We took the difficult decision to close our UK defined benefit pension scheme to future accrual from 30 June 2019, due to escalating scheme costs and the growing exposure to investment risk required to maintain the scheme. Having monitored and consulted on the scheme's shape and potential long-term risks over several years, we did not undertake this lightly, knowing how important pension benefits are to our colleagues. Following extensive consultation, new arrangements were agreed with our union and the scheme Trustees on behalf of our members.

During the year we prepared for Brexit, identifying potential risks and putting in place steps to mitigate them. In Ireland these preparations included working closely with the Central Bank of Ireland on our application for Third Country Branch status, for which we have been granted authorisation in principle. The Canadian and Australian insurance

businesses delivered GWP growth of 7.6% and 5.5% respectively in local currency. Canada's underwriting loss of £2.6m was driven by a range of adverse weather events and a modest increase in casualty reserves, and Australia's £1.4m underwriting profit benefited from lower claims and increased rate strength.

EdenTree, our pioneering investment management business, delivered strong growth in net inflows*, particularly to its Higher Income Fund. Funds under management remained at £2.7bn, with gross inflows totalling £392m broadly offset by market falls. There was continued investment in the year in technology and systems to deliver its future growth plans and, as a result, profits decreased to £0.9m (2017: £1.7m).

In the broking and advisory sector, SEIB's profits were marginally decreased from the previous year at £2.4m (2017: £2.5m). The business grew organically and also acquired books of business from Equicover and Equestrian World Services that complement its existing equine offer.

Today, we are
a successful,
ethically-run group of
specialist businesses
that have evolved in
anticipation of our
customers' changing
needs, often to
the extent that we
revolutionise industry
practice.

* Alternative performance measure, refer to note 35 to the financial statements for further explanation.

Innovating for good

Our investment management business EdenTree, for example, introduced pioneering ethical funds to the UK market, while our UK insurance business has taken the lead in creating greater transparency around the handling of abuse claims.

We are also renowned for efforts we make to help insurance customers manage their risks, so that ideally, they never have to make a claim. During 2018, we trialled a number of technologies across our jurisdictions, including infra-red cameras to help detect electrical hot spots and leak detection devices. We also trialled drones as risk management tools in the UK, following their successful use in our Australian subsidiary.

In collaboration with the Royal Institute of Chartered Surveyors, we provided customers and brokers with a unique Heritage Index that allows accurate reinstatement valuation of heritage properties. We also provided new advice on preventing accidental slips and trips (with the Health and Safety Laboratory) and started developing a new proposition to address cyber bullying in schools, ready for testing in 2019.

As with other activities that set us apart, understanding of our customers' worlds and the drive to put their needs first underpins this investment in loss prevention innovation.

An exciting future

While we expect continued uncertainty in investment markets and insurance markets to remain highly competitive, our consistently strong financial performance allows us to both withstand short-term uncertainties and invest in our future, laying the foundations for further sustainable and profitable growth.

The second phase of our ambitious change programme, which supports our latest target of giving £100m to good causes, is well underway. This will see us sustain and build on the distinctive position we occupy

in our existing markets through organic and inorganic growth, and develop new, specialist market segments.

Investment in our technology infrastructure progresses, with the introduction of a new core operating system for the UK and Ireland insurance business underway. This will streamline processes for our staff and provide a more agile and responsive service for our customers and brokers.

Work commenced in 2018 on a new accounting system for EdenTree and during the year we installed a new platform on which to build Group websites, reinvigorating our digital presence.

During 2019, the UK's Independent Inquiry into Child Sexual Abuse will conclude its investigations into institutional abuse in England and Wales. We will provide the Inquiry with information and insight as it requires and will continue to champion transparency and fairness in the insurance sector, for the benefit of abuse survivors. We will also maintain a prudent reserving strategy for potential abuse claims for the benefit of survivors.

The pace of progress that I have described would not be possible without the excellence and dedication of our specialist teams worldwide. We remain committed to investing in the development of their expertise and knowledge, so that they are equipped to meet and surpass our customers' expectations in a changing world.

Building a movement for good

Global studies tell us that people want companies to do the right thing.

2018 saw a telling development in this trend, with members of the public looking increasingly to business to take an active role in addressing societal issues. We heard that 62% of global consumers wanted companies to stand up for the issues they are passionate about,¹ while in the UK nine out of ten people said businesses should take a stance on the issues that are important to them.²

Across the Ecclesiastical Group such behaviour is in our DNA.

We are proud to have worked alongside the communities we serve for decades, helping to champion the issues that matter to them.

In 2018 alone we campaigned with the UK charity sector for the abolition of Insurance Premium Tax on struggling charities; we urged the UK government to reduce VAT on repairs and approved alterations to listed buildings; and our funeral planning business, in the wider Group, led calls for the introduction of regulation in the face of escalating poor practice in its sector.

More broadly, we continued to sponsor young craftspeople in a bid to reverse the

decline of traditional skills in our heritage sectors and also supported research to address new issues facing our estates and farming communities.

As a values-driven business, we also believe it is important to champion good practice in the financial services sector.

In 2018, we felt we needed to challenge one of the world's biggest insurers as it considered cancelling its preference shares at par, to the potential detriment of many shareholders. That was not an easy decision for our Board to make, because speaking out when others remain silent is hard to do. But we knew it was the right thing to do.

We are always looking for ways to extend the reach of our giving. Increasingly, we are doing this by putting the giving directly into the hands of the communities we serve, so they can support the causes that mean the most to them.

As people look to business to take a stand on society's most important issues, we are extending the reach of our giving and campaigning to create a network of organisations that, together, become a Movement for Good. A group of people and organisations that, together, can help change the world. For, as Archbishop Desmond Tutu put it:

“Do your little bit of good where you are. It’s those little bits of good put together that overwhelm the world.”

Thank you for transforming lives

It is just over five years since I became chief executive of the Ecclesiastical Group. In that time we have reached our first goal of giving £50m to charity – a goal that caused colleagues to gasp aloud when I revealed it. And since then we have given an extraordinary £64m.

Since 2016, and together with our owner, we have given donations to over 5,000 charities worldwide.

Each of these charities has a moving story to tell of the impact our giving can have. That is why we have captured on the following pages details from just a few of how our support is helping to change people's lives. I hope their stories bring to life the breadth and significance of that support and remind us that for each one of them, there are at least 300 more.

On their behalf, I would like to thank you

Thank you to our customers, brokers and business partners for entrusting us with your business and allowing us to help you champion the causes you care about. *Thank you* to our exceptional employees for always going the extra mile for our customers and partners. And *thank you* all for your tireless fundraising, volunteering and nomination of good causes that provide a helping hand to those who need it most.

To those of you who are reading about Ecclesiastical for the first time, I invite you to join us, whether as a colleague, customer or business partner, and experience for yourself how it is possible to do business differently.

Because I believe that together, we are creating something very special – a Movement for Good that touches and transforms lives in our villages, in our towns, in our communities, in this country and abroad.

Together, we are capable of more than you can imagine.

Mark Hews
Group Chief Executive

¹ Accenture Strategy: Global Consumer Pulse Research 2018

² CBI: Everyone's Business research Sept 2018

Transforming lives

We’ve given £64m to over 5,000 good causes since 2016. And we know this support is changing lives.

VOCAL
Supporting and empowering over 9,000 unpaid carers in Edinburgh and Midlothian.

The donation from Ecclesiastical will go towards vital counselling – paying for 50 carers to receive a counselling session. Your support will make a real difference to these carers.

“

Beccles Lido
A community scheme set up to save an open air swimming pool, toddler and paddling pools, following years of neglect.

Ecclesiastical’s donation has played a huge part in securing a further £300,000 in larger grants towards our £500,000 target.

The Wales Millennium Centre
Will give 30 vulnerable young people a place on their Radio Platform training programme.

The training programme gives young people the chance to be heard, and to have a safe place to learn and grow.

“

St Martin-in-the-Fields
This donation will go towards our Nazareth Community retreat weekend.

Allowing those who are refugees or asylum seekers or have no income to join a weekend of reflection, prayer and spiritual growth. This money will also help towards essential transport costs.

Flat Friends UK
Ecclesiastical’s generous donation will go towards producing a booklet, available in breast units across the country, to help support women facing decisions about having a mastectomy without immediate reconstruction.

“

Home-Start Arun, Worthing and Adur supports parents and families going through difficult times.

Ecclesiastical’s donation will support Home-Start’s work in the local community and make sure they can continue to help as many people as possible over the next year.

The Wave Project
Our award-winning intervention uses local surfers as volunteers to work one-to-one with young people.

Studies show that surf therapy helps to reduce anxiety and stress levels in young people. We’re excited to be part of such an amazing movement and that you have partnered with us by making this donation.

Education for Madagascar
Aiming to prevent and relieve poverty for children in the south of Madagascar.

Ecclesiastical’s donation will help fund a free health centre for children from the village of Ambohife, Madagascar. This will offer weekly health and nutrition checks, clothing, sports activities and cooking classes, providing a healthy lunch for each young person.

Acorn Village
Offering high-quality care and accommodation to adults with learning disabilities.

Ensuring our activities continue to be available to enhance the lives of adults with learning disabilities is thanks to companies like Ecclesiastical who truly make the difference.

“

The Friends of The Milestone School

We intend to put this donation towards a wheelchair accessible roundabout for the playground.

Many children will benefit from this. We would like to thank everyone who voted for us and Ecclesiastical for their wonderful campaign.

“

Seashell Trust
Providing specialist education and care to children and young people with complex learning and communication difficulties.

The donation from Ecclesiastical will be used to fit out a new sensory room in Seashell Trust’s School Facility. The room will help ensure that its 50 students lead and enjoy better lives through the development of their impaired senses.

“

Angel Wishes
Supporting children in Northern Ireland fighting cancer.

Thank you so much for your generosity and support this year. You can be assured it will be helping children throughout Northern Ireland smile.

“

Royal United Hospitals

This donation will make a real difference in improving outcomes for cancer patients.



Ansvar UK Rising from the flood

The Roald Dahl Museum and Story Centre celebrates the life and work of the children's author Roald Dahl. Set in his former home in Great Missenden, it's a place that inspires creativity and encourages children to discover a love for reading. In May 2018 disaster struck when torrential rains poured down a slope and into the exhibition area of the museum. The Story Centre and several of the bathroom areas were flooded forcing the museum to close its doors.

Ansvar UK was onsite the next day with loss adjusters to assess the damage and reassure the museum that all costs were fully insured. The clean-up operation began immediately but the extent of the damage meant that the repairs would take several months. This was a huge blow for the museum.

As a popular destination for school trips and families, being closed throughout the summer meant a significant impact on the museum's income. Fortunately the museum had selected business interruption cover, alongside the cover for the damage caused by the flood. This meant that the loss of income caused by the closure was covered. Ansvar worked closely with the museum and its broker Stuart & Co. to help it back on its feet. As well as funding the repairs to the fabric of the building, our insurer hired a PR consultant to promote the reopening of the museum.

Thanks to Ansvar's support, the museum reopened its doors in time for autumn half-term, and once more became a place of joy and wonder for Roald Dahl fans young and old.

"We really appreciated Ansvar's support in the wake of the flood. Going beyond just repairing the fabric of the building, they were very understanding about our concerns with cash flow and supported us with interim payments while our claim was being worked out. We were delighted to get additional funding to bring in a PR consultant to help promote our relaunch."

Steve Gardam
Museum Director
The Roald Dahl and Story Centre

Building a movement for good

Global trends in financial services

As part of our everyday business management, we monitor a number of global trends that we believe have the potential to impact our business in the future. Our insight into these trends is shown over the next few pages and our response to these trends is demonstrated within Strategy in action (page 44).

Trend	Our perspective
Low trust in financial services ➡	The financial services sector is slowly rebuilding its reputation following the financial crisis of 2008-9, when trust fell to record lows. Ten years on, global trust in financial services remains significantly lower than the most trusted global business sectors of automotive, education, manufacturing and technology, with only the media and government scoring lower on the Edelman Trust Barometer. Although financial services saw a small uplift in trust in 2018, it must focus on creating trust with its stakeholders. There is a clear opportunity for ethical and trusted businesses that can demonstrate a proven track record in upholding high standards. Ecclesiastical has a distinct positioning reflected by our aim to be the most trusted and ethical financial services group. Our business model supports this ambition and we have an unusually high level of trust compared with other financial services businesses. As shown in Strategy in action (page 44) our businesses are recognised for their ethical and trusted ethos: our UK insurance business has been recognised as the consumer's most trusted provider for the eighth consecutive time; and EdenTree, our investment management business, has a market-leading reputation as both an ethical investment provider and as an ethical investor.
Geopolitical landscape ➡	Uncertainty and volatility remains the order of the day in the geopolitical landscape. There is significant turbulence across the world, with the threat of trade wars, tensions in the Middle East, disintegrating relationships with Russia, Japanese nervousness over the power of China, and turmoil arising from dissatisfaction with political leaders. The European Union is facing a potential crisis with the populist and centre right parties seeking to reformulate its historical values away from liberal democracy. These tensions are compounded by continuing uncertainty over the UK's exit from the European Union which is due to take effect from the end of March 2019. There is potential for unexpected leadership changes – both in many of the world's leading economies and in some of the more troubled countries such as Venezuela which has the world's largest reserves of oil. Populist politics could lead to deadlock or the unwinding of reform as populists seek to win votes rather than create stability. This uncertainty has led to lower levels of investment, particularly in Europe and the United States. All our businesses continue to monitor the global landscape to understand the potential impact of uncertainty.

Trend	Our perspective
Climate change ➡	The world's climate has changed over the past decade, with average temperatures continuing to rise. This is expected to lead to less predictable and more extreme weather events, such as hurricanes, severe freezes, floods, extreme heatwaves and droughts. Rising urbanisation is placing pressure on natural defences, leaving increasing numbers of people vulnerable to rising sea levels. These factors are likely to result in a greater concentration of insurance losses and will require changes in the way risk is evaluated and managed. Our insurance businesses are investigating and trialling a number of innovative tools to prevent losses from occurring, as shown in Strategy in action (page 44). The UN Intergovernmental Panel on Climate Change (IPCC) has warned that global warming must be kept to a maximum of 1.5C within 12 years. Meeting this ambitious 1.5C target could also prevent the eradication of corals and suppress the changes in the Arctic which is seeing more pronounced changes than elsewhere. The world is running out of time, but there are positive signs with increased activity from businesses to manage climate change action and an uplift in renewable energy use. As a socially responsible investor, EdenTree has commissioned carbon risk footprints for our equity funds. All our funds have portfolio carbon footprints below the required thresholds.
Changing demographics and social trends; increased customer expectations ➡	Over the past decade, social profiles have changed across our key markets and territories. In much of the developed world, populations are ageing – leading to a fall in the working population. This creates expectations of increased and longer participation in the workforce, alongside higher levels of migration, delayed retirement and increased productivity arising from progress in digital technology. The above-mentioned migration is likely to lead to greater ethnic diversity which in turn will provide new opportunities for businesses, particularly those operating in faith markets. Alongside Ecclesiastical's roots in the Anglican Church, our faith customers span a broad spectrum of faith risks including sacred places of worship for Muslims, Hindus and Jews. Customers and business partners are demanding more from businesses. There is a growing appetite for businesses to do good for society. Expectations have also risen as customers expect greater personalisation through tailored propositions that meet their specific needs. As trusted providers, our businesses continue to attract and retain prestigious customers across our territories, as shown in Strategy in action (page 44).

Trend

Our perspective

Regulation



Regulators continue to focus on capital strength, transparency and governance. Culture, conduct and compliance are critical elements of strong governance and are expected to remain a key regulatory focus in all markets. In 2018, there were several significant new regulatory requirements: in the EU these included the Markets in Financial Instruments Directive (MiFID II), General Data Protection Regulation (GDPR), the Insurance Distribution Directive (IDD), the Senior Managers and Certification Regime (SM&CR) and the fifth Anti-Money Laundering Directive.

It is expected that regulatory focus and scrutiny will now shift towards firms demonstrating the successful embedding of recent regulatory requirements. Some regulatory fine-tuning may be needed, before the next major wave of regulations is implemented in the early 2020s (including IFRS17 (International Financial Reporting Standard) which is specific to insurance companies). In Australia, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry heard evidence during 2018 and has now published its final report. This proposes significant change to the regulation and enforcement of conduct in all financial services, which is likely to have far reaching consequences for business models, distribution and governance requirements.

It is essential for businesses to focus on their customers' needs to ensure a successful response to regulatory requirements. Financial services organisations need to continue investment in their businesses, processes, systems and culture to support their efforts to meet customers' evolving needs. With the shift towards digital distribution, businesses must respond to the rising importance of the use and security of data, and to not put vulnerable customers at risk and ensure that they can access and gain value from financial products and services. As shown in Strategy in action (page 44), all our businesses consider the impact of the updated regulatory environment as part of their day-to-day activity, addressing these requirements as appropriate.

The UK's exit from the European Union (Brexit) will have a significant impact on insurance and investment management businesses. We have prepared for all potential outcomes arising from Brexit. The Group has one business based in the EU27, its Ireland Branch. We have applied to the Central Bank of Ireland for approval of this business as a Third Country Branch and have received authorisation in principle, to substitute for the current passporting of UK authorisation.

We have also made contingency plans for the transfer of data between the UK and the branch in the event of a 'no-deal' Brexit. Appropriate action has been taken so that our businesses continue to operate in a lawful manner, while continuing to support our clients and business partners, in either an orderly transition or a more abrupt Brexit. These actions will safeguard our ability to trade in the Republic of Ireland after Brexit; if we are unable to do so, this will result in lost premiums of 14 million Euros.

Trend

Our perspective

Developments in technology, data and analytics



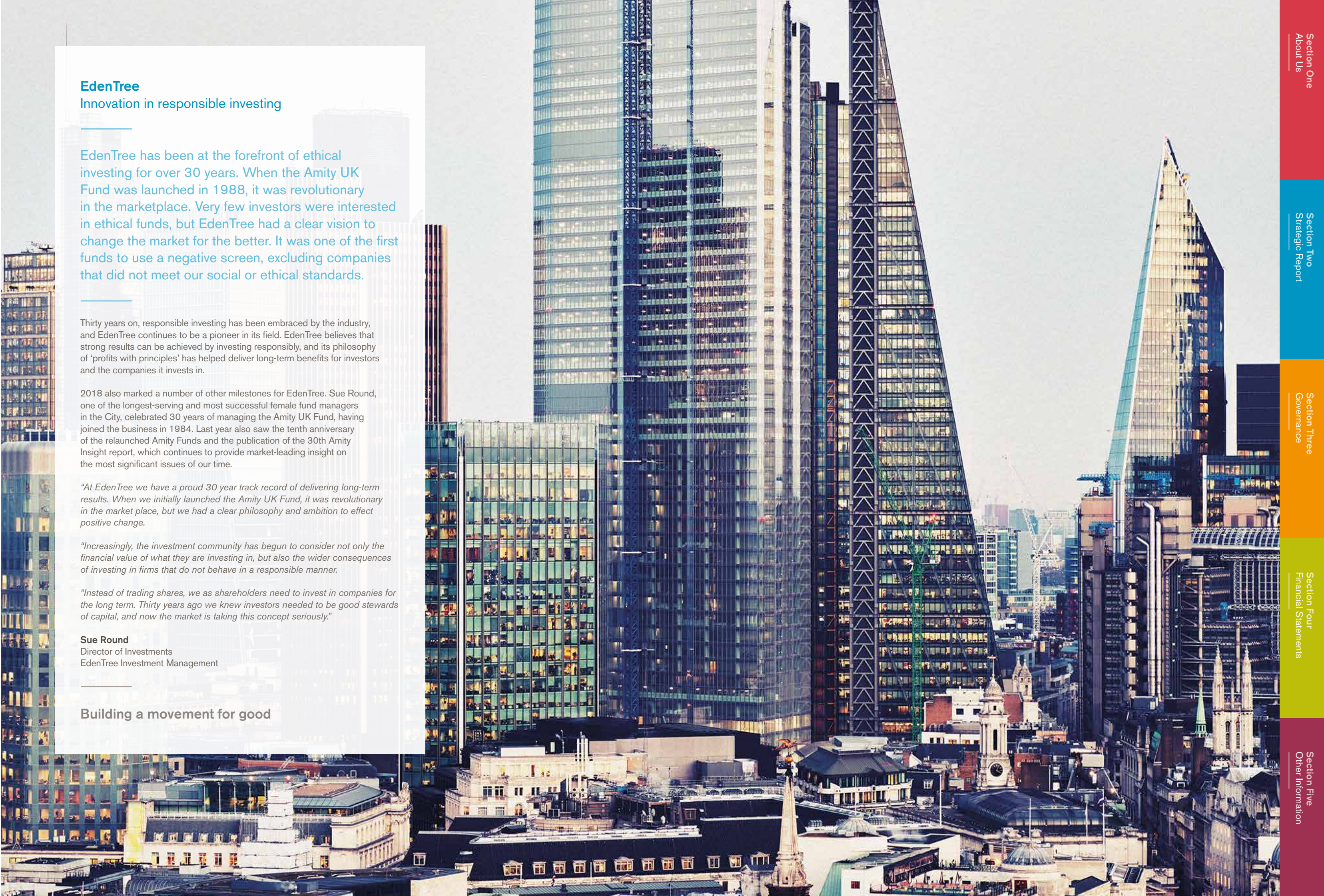
The digital economy is growing with many businesses seeking opportunities to create competitive advantage with their digital experience. While the financial services sector has been offering online services since the late 1990s, today's insurers are moving towards digitalisation as a way of working and not just a route to market. Digital is a key enabler for innovation, helping to increase speed to market for new products, improve efficiency and provide superior customer service.

Developments in technology and data can provide a deeper understanding of customer behaviour and risk assessment. This is a key enabler for innovation, and as data becomes more accessible, it will drive business decisions, underpin pricing models and proposition design, leading to better customer experiences and enhanced risk selection. Additionally, businesses continue to invest in underlying systems and technology to increase their operational efficiency and agility.

Artificial intelligence (AI) and robotics will continue to have an impact on the insurance value chain, particularly in underwriting, pricing and risk management. Predictive analytics deliver deeper insights on properties at higher risk of theft or changes in environmental and physical conditions (such as water leakage). In 2018, Ecclesiastical invested in innovative technology including drones, thermography and water leak devices as shown in Strategy in Action (page 44).

The challenges posed by disruptive innovation and new technology should be considered. Technology-led disruptors (known as InsurTech in the insurance sector) can have competitive advantage due to their agility and lack of legacy issues. These businesses are innovative, but have not yet gained a strong foothold in the sector. Insurers that have tried to mimic these agile startups have often struggled to scale their ideas into the business. It is anticipated that insurers may move beyond collaborative partnerships and seek to integrate InsurTech into their businesses.

The World Economic Forum's Global Risks Report identifies cyber-attacks as a top five global risk. Cyber is an ongoing business risk with the potential to have far-reaching implications: with rising global dependency on technology, cyber security is of paramount importance. There are concerns over the risks that cyber-attacks present to governments, businesses and individuals and the potential use of AI in these attacks. As shown in Strategy in action (page 44), we are working to raise awareness of this risk.



EdenTree

Innovation in responsible investing

EdenTree has been at the forefront of ethical investing for over 30 years. When the Amity UK Fund was launched in 1988, it was revolutionary in the marketplace. Very few investors were interested in ethical funds, but EdenTree had a clear vision to change the market for the better. It was one of the first funds to use a negative screen, excluding companies that did not meet our social or ethical standards.

Thirty years on, responsible investing has been embraced by the industry, and EdenTree continues to be a pioneer in its field. EdenTree believes that strong results can be achieved by investing responsibly, and its philosophy of 'profits with principles' has helped deliver long-term benefits for investors and the companies it invests in.

2018 also marked a number of other milestones for EdenTree. Sue Round, one of the longest-serving and most successful female fund managers in the City, celebrated 30 years of managing the Amity UK Fund, having joined the business in 1984. Last year also saw the tenth anniversary of the relaunched Amity Funds and the publication of the 30th Amity Insight report, which continues to provide market-leading insight on the most significant issues of our time.

"At EdenTree we have a proud 30 year track record of delivering long-term results. When we initially launched the Amity UK Fund, it was revolutionary in the market place, but we had a clear philosophy and ambition to effect positive change."

"Increasingly, the investment community has begun to consider not only the financial value of what they are investing in, but also the wider consequences of investing in firms that do not behave in a responsible manner."

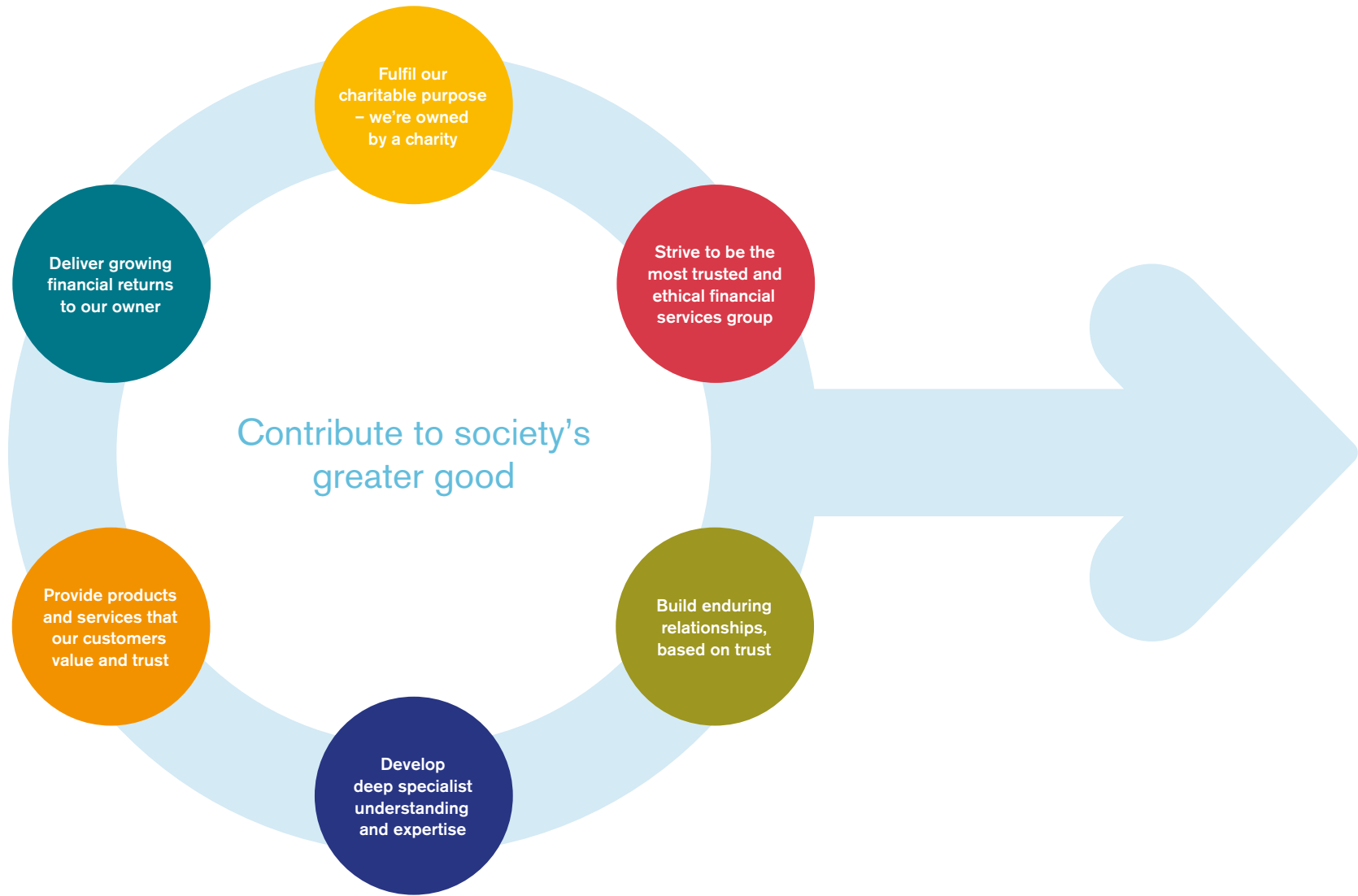
"Instead of trading shares, we as shareholders need to invest in companies for the long term. Thirty years ago we knew investors needed to be good stewards of capital, and now the market is taking this concept seriously."

Sue Round
Director of Investments
EdenTree Investment Management

Building a movement for good

Our business model and strategy

We are a commercial business with a charitable owner and purpose, with a distinctive positioning that sets us apart from other businesses in the financial services sector. Our purpose is to deliver growing financial returns to our shareholder and owner, which are then distributed to charitable causes and communities, contributing to society’s greater good. We use our distinctive proposition to create competitive advantage.



-  **The most trusted specialist insurer**
Our aim is to be the most trusted specialist insurer, offering unrivalled expertise and knowledge in our core markets, with appealing customer propositions and an excellent claims service that meet the concerns and needs of our customers and business partners
-  **The most trusted specialist adviser**
We aim to be the most trusted specialist adviser in our chosen markets, providing our customers with the best independent and impartial insurance or financial advice in order to meet their needs
-  **The best ethical investment provider**
We aim to be the best ethical investment provider and thought leader on socially responsible investment. Building on an impressive track record, we will continue to enhance our proposition and our ethical credentials, leading the debate on the ethical investment issues that matter to our customers

Our charitable purpose drives our strategic goal of being the most trusted and ethical business in our chosen markets. It shapes the way we do business, particularly our focus on doing the right thing for our customers and business partners. It creates an environment where sustainable, long-term value generation is prized over short-term results.

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

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

Section Two

Strategic Report

Strategy in action

Strategy in action

Our strategic goal is:

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

Our business has made considerable progress towards this target: during 2018, £18.8m was donated to good causes and the total now stands at £64m. This achievement has been made possible through the endeavours of all our businesses across the Ecclesiastical Insurance Group, which are focused on meeting the needs of their customers and business partners.

This charitable purpose underpins our business strategy. In 2018, Ecclesiastical continued to be recognised as a leading UK corporate donor. Our business is the number one insurer for corporate giving and has the accolade of fourth place in the UK Guide to Company Giving 2017/18 (published by the Directory of Social Change).

We have continued to deliver the key elements of our strategy while investing in our businesses and delivering value to our customers.

Most trusted specialist insurer

We achieve this by being



Customer focused

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

Disciplined in our underwriting

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

Focused on relationships

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

Real specialists

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

Prepared to invest

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

Strategy in action



- Attracted and retained prestigious customers across all our segments in all our territories
- Our UK business was recognised for its superior claims handling
- Obtained approval for our internal capital model from the Prudential Regulation Authority (PRA) in July 2018
- Developed several new products and enhanced our risk management propositions
- Invested in technology and innovation to support the ambitions of the business and to create added value for our customers
- Established Ansvar Risk Management Services Limited in Australia, offering integrated risk management, valuation and drone data capture services
- Progressed regulatory enhancements in readiness for the General Data Protection Regulation (GDPR), the Insurance Distribution Directive (IDD) and the Senior Managers and Certification Regime (SM&CR)
- Retained Chartered Insurer Status for our UK and Ireland businesses
- Showcased Ecclesiastical's proposition to brokers through a series of reputation building campaigns
- Invested in innovative technology including thermography, water leak devices and nanotechnology to help customers to take proactive and preventative measures against potential losses
- Approved the business case for the adoption of a new policy administration platform for the UK and Ireland
- Continued to have constructive engagement with the Independent Inquiry into Child Sexual Abuse (IICSA)
- Invested in people capabilities including the launch of our People Leaders Academy to enhance leadership and succession management and established a second cohort for the Group's leadership development programme

Most trusted specialist insurer

Highlights



- Recognised externally for our expertise and ethical approach, reflecting customer satisfaction of 98% (UK) and broker satisfaction of 90% (UK)

Recognised by Fairer Finance as the consumer's most trusted provider for the eighth consecutive time

Our UK Claims team won four awards:

 - Customer Care Solutions of the Year at the Insurance Times Claims Excellence Awards;
 - The Training Award at the Insurance Post Claims Awards;
 - The Customer Care (Individual) Award at the Insurance Post Claims Awards; and
 - The Achievement Award at the Insurance Post Claims Awards

One of Canada's Top 100 Employers for Young People for the seventh consecutive year

Developed new products for Real Estate, Household, Art & Private Client (UK) and Education (Ireland) and launched a range of online tools including e-learning (Australia) and an event liability portal (Canada)

Collaborated with the Royal Institute of Chartered Surveyors to create the exclusive Heritage Index for buildings with traditional construction such as stone masonry or slate

Voted the best insurer in the charity, commercial heritage and education sectors by brokers for the 12th consecutive year and recognised by UK brokers as the best insurer in the faith sector (in independent surveys by FWD)

Successfully executed regulatory enhancements including day one GDPR requirements (to comply with both the rights and expectations of our customers and other stakeholders), and the IDD (with higher standards of product governance and clearer responsibilities for their distribution)
- Responded to the SM&CR, redefining and restructuring how our UK insurance business is governed and controlled, and ensuring that all staff have a thorough understanding of the high standards of conduct expected

Provided enhanced support to UK parish customers through the deployment of Church Insurance Consultants and the Little Deeds, Big Difference, highlighting grassroots activity in local churches

Created Id8, a programme for schools combining innovative thinking, technology and insurance at the British Insurance Brokers Association (BIBA)'s inaugural Hackathon

Best ethical investment provider

We achieve this by



- Promoting socially responsible investment**

– we have an industry-leading reputation for our socially responsible investment funds and investment thought leadership

Delivering long-term performance

– we use a consistent proven approach to deliver long-term investment success

Developing our offering

– we are developing and deepening our fund offering with particular focus on institutional investors and the charity segment
- Creating a platform for growth**

– we are upgrading our IT capabilities to create a platform for growth and increase processing efficiency

Refining our service

– we are enhancing our services to keep pace with the evolving needs of our customers

Strategy in action



- Recognised for responsible and sustainable investment with our excellent track record over three decades
 - Won multiple awards for our ethical approach and consideration of environmental, social and governance factors
 - Continued to invest in strengthening our capabilities including investing in our back-office systems and key recruitment
 - Delivered process changes (with enhanced client reporting) to meet MiFID II rules
- Reinforced our thought leadership position in responsible investment with acclaimed research and expert briefings
 - Engaged across the responsible investment landscape including membership of Institutional Investors Group on Climate Change (IIGCC), BBFAW (Business Benchmark on Farm Animal Welfare) and The 30% Club (to broaden the pipeline of women at all levels)

Highlights



- Celebrated 30 years since the first Amity Fund was launched in 1988

Won the Moneyfacts Best Ethical Investment Provider Award for the 10th consecutive year

Achieved the highest score of A+ for Strategy & Governance in the UN Principles of Responsible Investment assessment, (with A for Listed Equity and Fixed Income)

Obtained our sixth accreditation under the SRI European Transparency Code in 2018 and remained a Tier I Signatory under the UK Stewardship Council disclosure
- Won the Charity Times Award for Boutique Investment Manager

Awarded Best ESG Fund Management Group (Specialist) by Investment Week

Published our commended Amity Insights research (including The Waste Problem and Hungry Planet Revisited) and issued eight Expert Briefings on responsible investment topics from gender diversity to sand mining

Through our charitable fund, supported young people's social education and provided counselling to vulnerable women

Most trusted specialist adviser

We achieve this by



Providing excellent service

– building long-term sustainable relationships with our customers and their insurers

Strengthening our proposition

– deepening our expertise further in our chosen markets, cementing our position as market leaders in these areas

Building our business

– delivering growth by developing new offerings and schemes which complement our existing niche markets

Working more closely together

– developing closer operational links across the Group to offer solutions that meet our customers' needs

Strategy in action



- A multiple award-winning year for the broking businesses
- Deepened position in the equine market, acquired both Equestrian World Insurance Services and the equine side of insurance intermediary Equicover Ltd
- Collaborated with the British Horse Society and the Animal Health Trust to support campaigns to improve the general welfare of horses and riders

- Established the SEIB Giving community fund to support small and medium-sized charities
- Ecclesiastical Financial Advisory Services continued to meet the key financial concerns of clergy and church-related people
- Campaigned to improve the regulation of the funeral plan industry, including positive engagement with Her Majesty's Treasury and the Funeral Planning Authority

Highlights



- Won the British Claims Award for Personal Lines Broker of The Year
- Won the Insurance Post Award for Young Marketer/PR Employee of the Year
- Worked closely with associations and sub-broking partners to create new and enhanced schemes to provide greater benefit to customers
- Created bespoke risk management guides for specialist trades, in collaboration with insurer partners
- EFAS provided financial education seminars in a variety of dioceses

- Over 200 small and medium-sized charities were nominated for SEIB Giving. SEIB customers chose The British Horse Society to receive the first grant of £50,000
- Worked to raise awareness and support for equine diseases such as strangles (a respiratory infection) and grass sickness
- Received external plaudits for EPSL which were supported by 90% of funeral directors who are extremely or very satisfied with EPSL*
- EPSL* launched a Royal London branded funeral plan in partnership with Royal London Group

*part of Ecclesiastical Insurance Group (EIG)

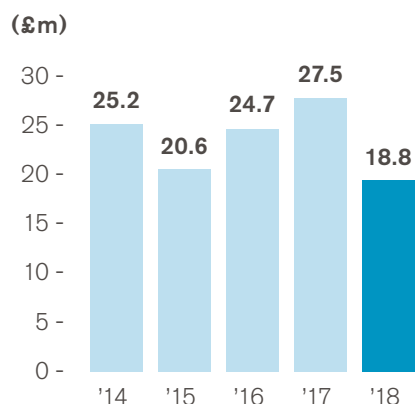
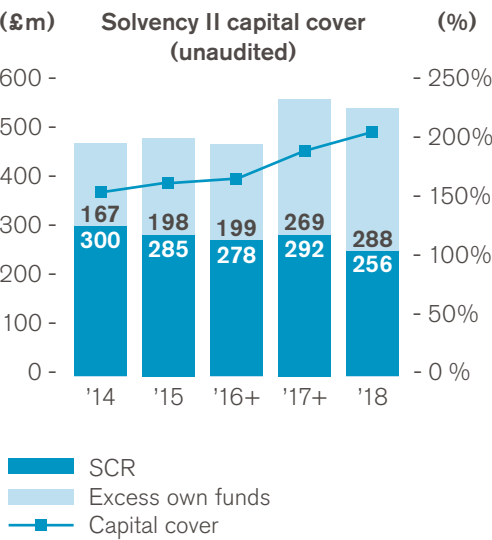
Section Two

Strategic Report

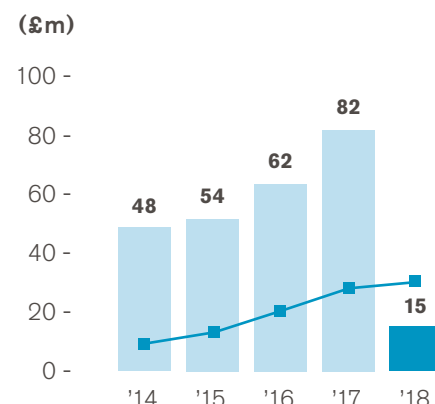
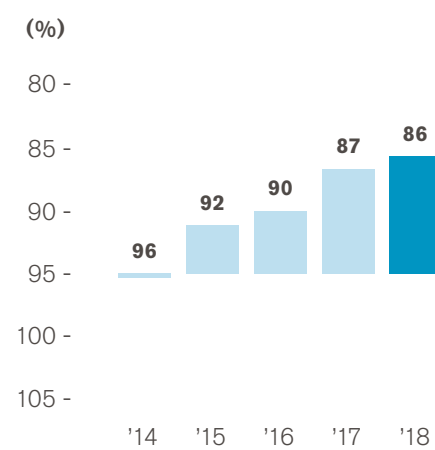
Key Performance Indicators	
Financial	50
Non-financial	52

Key Performance Indicators

Financial

Measure	Performance																								
Donations The amount donated by Ecclesiastical to charities and our charitable owner each year. This is the main measure of our ambition, which is to give £100m to charity by the end of 2020.	A fifth consecutive year of stable underwriting financial results¹ has enabled us to continue our targeted level of charitable giving, with £18.8m of donations paid to good causes in 2018. This includes grants of £17.0m to our charitable owner Allchurches Trust. This takes the total amount of giving towards our £100m target up to £64m.  <table> <tr><th>Year</th><th>Donations (£m)</th></tr> <tr><td>'14</td><td>25.2</td></tr> <tr><td>'15</td><td>20.6</td></tr> <tr><td>'16</td><td>24.7</td></tr> <tr><td>'17</td><td>27.5</td></tr> <tr><td>'18</td><td>18.8</td></tr> </table>	Year	Donations (£m)	'14	25.2	'15	20.6	'16	24.7	'17	27.5	'18	18.8												
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Regulatory capital¹ The Group's regulatory capital requirements are defined under the Solvency II directive as issued by the European Union and adopted by the Prudential Regulation Authority (PRA). As the Group assessment is conducted at the level of Ecclesiastical Insurance Group plc, the following refers to the regulatory capital of EIO Group's parent company Ecclesiastical Insurance Office plc and excludes the impact of Ecclesiastical Life Limited and Ansvar Insurance Limited. The Solvency Capital Requirement (SCR) is a risk-based statistical calculation that quantifies risks specific to our business. The Group sets a target level of capital that is in excess of the SCR to ensure ongoing compliance.	Ecclesiastical's capital position under Solvency II has strengthened in 2018. Our capital cover improved during the year as the SCR decreased following the approval of our internal model, which provides a more accurate calculation of our unique risk exposure. The SCR for 2017 and prior was calculated using the standard formula. The figures for 2018 are based on the information provided to the Board as part of their ongoing management of the business and are unaudited. We continue to balance the need to retain profit within the business, to support our strategy for future growth and investment in technology and innovation, with our aspiration to meet charitable giving targets.  <table> <tr><th>Year</th><th>SCR (£m)</th><th>Excess own funds (£m)</th><th>Capital cover (%)</th></tr> <tr><td>'14</td><td>167</td><td>300</td><td>~150%</td></tr> <tr><td>'15</td><td>198</td><td>285</td><td>~145%</td></tr> <tr><td>'16+</td><td>199</td><td>278</td><td>~140%</td></tr> <tr><td>'17+</td><td>269</td><td>292</td><td>~185%</td></tr> <tr><td>'18</td><td>288</td><td>256</td><td>~200%</td></tr> </table> + 2016 and 2017 figures are audited and reflect figures from the company's published Solvency and Financial Condition Report which is available via the company's website	Year	SCR (£m)	Excess own funds (£m)	Capital cover (%)	'14	167	300	~150%	'15	198	285	~145%	'16+	199	278	~140%	'17+	269	292	~185%	'18	288	256	~200%
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'16+	199	278	~140%																						
'17+	269	292	~185%																						
'18	288	256	~200%																						

¹ Alternative performance measure, refer to note 35 for further explanation.

Measure	Performance																		
Profit before tax The Group's profit before deduction of tax. Each year, refreshed targets are set in relation to the Group's business plans for profit before tax. Details of the target that was set for 2018 can be found in the Group Remuneration Report on page 124. Our short-term target is to generate sufficient profit to enable us to meet our targets for charitable donations.	Total profit decreased to £15.4m in 2018, driven by lower total investment returns in line with the volatility seen in equity markets in 2018. There was continued growth in profit from the Insurance division and our Investment Management and Broking and Advisory divisions continued to contribute positive performance to the Group result. More information on underwriting performance is given below. See the Financial Performance Report on page 54 for more details.  <table><tr><th>Year</th><th>PBT (£m)</th><th>Underwriting profit (£m)</th></tr><tr><td>'14</td><td>48</td><td>~10</td></tr><tr><td>'15</td><td>54</td><td>~15</td></tr><tr><td>'16</td><td>62</td><td>~20</td></tr><tr><td>'17</td><td>82</td><td>~25</td></tr><tr><td>'18</td><td>15</td><td>~30</td></tr></table>	Year	PBT (£m)	Underwriting profit (£m)	'14	48	~10	'15	54	~15	'16	62	~20	'17	82	~25	'18	15	~30
Year	PBT (£m)	Underwriting profit (£m)																	
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'17	82	~25																	
'18	15	~30																	
Combined operating ratio*¹ (COR) The sum of Ecclesiastical's general insurance incurred losses and expenses divided by earned premiums for each financial year. Each year, refreshed targets are set in relation to the Group's business plans for the Group COR. Details of the target that was set for 2018 can be found in the Group Remuneration Report on page 124. Our target over the longer term is to achieve a 95% COR.	The COR has improved for a seventh consecutive year. The Group continues to keep underwriting and pricing discipline at the centre of its strategy, prioritising profit over growth in the competitive business environment. In 2018 the ratio continued to outperform our longer-term target, supported by prior year releases due to favourable developments in our liability claims. Our claims reserves remain prudent and we would anticipate a more normalised COR in the future as the run-off of the liability business we exited in 2012 and 2013 works through. For a breakdown of how COR is calculated, see note 35 on page 232. See the Financial Performance Report on page 54 for more details.  <table><tr><th>Year</th><th>COR (%)</th></tr><tr><td>'14</td><td>96</td></tr><tr><td>'15</td><td>92</td></tr><tr><td>'16</td><td>90</td></tr><tr><td>'17</td><td>87</td></tr><tr><td>'18</td><td>86</td></tr></table>	Year	COR (%)	'14	96	'15	92	'16	90	'17	87	'18	86						
Year	COR (%)																		
'14	96																		
'15	92																		
'16	90																		
'17	87																		
'18	86																		

* These figures have not been restated, they are as reported in the appropriate year's report and accounts.
¹ Alternative performance measure, refer to note 35 for further explanation.

Measure	Performance													
Net expense ratio*¹ (NER) Total expenses as a proportion of the net premium earned in the year. These expenses include acquisition costs, administration costs, the movement in deferred acquisition costs and commission paid less commission received. Our aim is to make year-on-year improvements in the NER. However, in the short term we expect NER to reflect a planned increase in strategic investment.	Our NER increased in 2018 to 55% with a 3% increase in net earned premium, partially offsetting a 5% increase in net expenses. Our programme of strategic investment in technology, innovation and in our people has continued in 2018 along with an increase in expenses from our overseas businesses on translation into sterling. In 2018 we incurred one off costs in relation to the announced closure to future accrual of the UK defined benefit pension scheme and the recent Lloyd's Bank court ruling on Guaranteed Minimum Pension equalisation. For a breakdown of how NER is calculated, see note 35 on page 232.	(%) <table><tr><th>Year</th><th>NER (%)</th></tr><tr><td>'14</td><td>40</td></tr><tr><td>'15</td><td>46</td></tr><tr><td>'16</td><td>51</td></tr><tr><td>'17</td><td>54</td></tr><tr><td>'18</td><td>55</td></tr></table>	Year	NER (%)	'14	40	'15	46	'16	51	'17	54	'18	55
Year	NER (%)													
'14	40													
'15	46													
'16	51													
'17	54													
'18	55													
Net inflows¹ (investment management) Net inflows are the difference between the funds invested and the funds withdrawn during the period by third parties in the range of funds our Investment Management division offers. Net inflows contribute to funds under management which is a key driver of the division's revenue. Each year refreshed targets are set which take into account current market conditions and potential new initiatives.	In 2018, factors such as rising US central bank interest rates, a sharp slowdown in eurozone business confidence, weaker Chinese growth, rising geopolitical concerns and the ongoing trade conflict between the US and China all contributed to a volatile year with a significant market downturn during the final quarter. For the second consecutive year we saw record gross inflows from all sources, which in 2018 totalled £392m. Total net inflows were the highest level in our history at £181m, with a significant contribution from an institutional mandate win. This represents a continuation of our return to our targeted level of net inflows.	(£m) <table><tr><th>Year</th><th>Net Inflows (£m)</th></tr><tr><td>'14</td><td>98</td></tr><tr><td>'15</td><td>15</td></tr><tr><td>'16</td><td>-28</td></tr><tr><td>'17</td><td>121</td></tr><tr><td>'18</td><td>181</td></tr></table>	Year	Net Inflows (£m)	'14	98	'15	15	'16	-28	'17	121	'18	181
Year	Net Inflows (£m)													
'14	98													
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'17	121													
'18	181													

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

¹ Alternative performance measure, refer to note 35 to the financial statements for further explanation.

Non-Financial

We place equal importance on financial and non-financial key performance indicators. Details of the non-financial performance indicators can be found within our Strategy in action section starting on page 44 and our Corporate Responsibility Report starting on page 78.

Section Two

Strategic Report

Financial Performance Report

Financial Performance Report



We delivered a pre-tax profit of £15.4m in 2018 (2017: £82.2m). Our underwriting profit remained strong at £29.2m, (2017: £27.1m) although investment market conditions were challenging and resulted in fair value losses of £31.3m (2017: gain of £35.8m).

There has been continued growth in our underwriting results over the last five years as we have successfully delivered against our redefined strategy. We remain a trusted partner to our brokers and customers, and this is reflected in our high retention and satisfaction levels. Investment returns were impacted by unrealised investment losses due to external market turbulence, including the impact of the uncertainty around Brexit. We manage the business by taking a long-term view of risk, and our approach to capital management means that we are able to withstand short-term volatility. In particular, our investment approach carries a level of risk, but enables us to take advantage of the opportunities to deliver higher investment returns over the long term from investing in equities, than from investing in lower risk, lower returning fixed income investments. The Group remains well capitalised and received approval for our Internal Model in 2018, which was a significant milestone. The Internal Model enables us to continue to understand and quantify our risk profile and to optimise the use of capital in the future.

In order to ensure that the Group delivers sustainable profitable growth, we continue to make strategic investments in technology, property, people and processes. We took the difficult decision to close the UK defined benefit pension scheme to future accrual from 30 June 2019, which will enable the scheme to reduce the level of risk over time and secure the payment of future benefits to members.

We made charitable grants of £18.8m (2017: £27.5m) for the year as part of our commitment towards the £100m target by 2020 and have seen the positive impact that this charitable giving makes to people's lives.

General insurance

Our underwriting performance¹ for the year was a profit of £29.2m (2017: £27.1m profit), resulting in a Group COR¹ of 86.4% (2017: 86.9%). Our fifth consecutive year of improvement in underwriting profits has been aided by the favourable development of prior year claims on the Group's liability business. Additionally in the UK there has been good current year experience on the liability and property accounts which helped to offset the impact of a series of weather events in our Canadian business.

United Kingdom and Ireland

In the UK and Ireland underwriting profits decreased to £29.4m (2017: £32.7m profit) giving a COR of 80.2% (2017: 77.1%). This represents another good performance with a favourable result on the liability account and a solid outturn on the property book. It is not a level of underwriting performance on the liability account we expect to persist in the future.

The underwriting result on the property account was behind last year, impacted by adverse weather in the first half of the year with the Beast from the East and Storm Emma combined with an increase in subsidence claims following the exceptionally dry summer. Despite these events the current year loss ratios are in line with expectations and the result benefited from a distribution from our pooled terrorism reinsurance arrangements of £1.0m (2017: £1.9m).

The underwriting result from the liability account continues to perform favourably. Current year claims performance was again better than expected, and we have also had the benefit of reserve releases as historical claims have been settled at amounts that were less than anticipated. The run-off of unprofitable business we exited in 2012 and 2013 combined with the prudent approach to reserving have improved the overall result in the last three years.

In 2018, GWP has grown by 5% to £242m, (2017: £231m). The trading conditions across the year were consistently very competitive with the market remaining sensitive to changes in price. Despite this we have seen high retention levels across our UK and Ireland business demonstrating the strength of our proposition and reputation for exceptional service. Our Real Estate and Art & Private Client business delivered growth of 14% and 22% respectively as we successfully build on our investment in innovation and product development. GWP in respect of our Faith business remained in line with prior year reflecting a good result in a highly competitive market.

¹ Alternative performance measure, refer to note 35 to the financial statements for further explanation.

We expect the market to continue to be fiercely competitive. The capacity in the market and moves by generalist insurers into our core specialist risks will maintain the pressure on our GWP growth ambition. Our strategy over the medium term looks to deliver moderate GWP growth, while maintaining our strong underwriting discipline and our philosophy to seek profit over growth. We will continue to deepen our specialist capabilities through investment in technology and innovation, and to provide appealing customer propositions and excellent service.

Ansvar Australia

Our Australian business reported an underwriting profit of AUD\$2.5m giving a COR of 93.7% (2017: AUD\$1.2m profit, COR of 96.9%). The liability account performed well and includes the benefit of favourable development of prior year claims reserves. The property account incurred losses but improved over the prior year, driven by the more benign natural catastrophe experience in 2018.

GWP grew by 5% in local currency to AUD\$101.6m (2017: AUD\$96.3m). The 2018 growth in GWP was driven by the property book while GWP for liability remained constant. Property GWP increased by 9% with good levels of renewal rate more than offsetting the run-off of a proportion of the property book at the end of 2017.

Canada

Our Canadian business continued its track record of delivering premium growth, reporting an 8% increase in the branch's contribution towards Group GWP at CAD\$93.5m (2017: CAD\$86.9m).

The territory reported an overall underwriting loss of CAD\$4.5m giving a COR of 106.5% (2017: CAD\$12.1m loss, COR of 118.5%). The severe winter weather at the beginning of 2018 and the occurrence of four weather related mini-catastrophes which were not significant enough to trigger the catastrophe

reinsurance programme, severely impacted the result. Performance in the second half of the year was stronger, reflecting the benefit of rating action and a return to more normal weather experience.

Other insurance operations

General insurance profits benefited from favourable releases of prior year reserves from our businesses in run-off, resulting in an overall profit of £1.0m (2017: £0.9m profit).

Investments

Following the strong market returns of the previous two years, 2018 saw a return to volatility in UK and worldwide stock markets which over the course of the year pushed market prices down, notably in the fourth quarter of the year. Income from financial assets remained relatively stable at £27.0m (2017: £29.0m) with the low rate environment continuing to depress overall yields. As a result of the investment market downturn at the end of 2018 the fair value of financial instruments decreased by £35.5m (2017: increase of £30.3m). There has been some recovery in the markets in early 2019 but uncertainty remains over the outcomes of key issues such as global trade and Brexit. Overall investment returns for the year were £4.0m (2017: £72.3m).

The small and mid-cap bias in our UK equity portfolio had a negative impact in 2018 as the FTSE small-cap and FTSE 250 mid-cap indices lagged the FTSE 100 large-cap index and FTSE AllShare overall by 4%. Our allocation to lower volatility direct property investments was the largest positive contributor to total net investment returns over the period. On a relative basis our property investments delivered a return of 5.2% compared with the broader Investment Property Databank (IPD) All Properties Index return of 7.4%. A strong return on industrial properties was offset by the retail property sector where our allocation is greater than the benchmark.

The Group's bond investment portfolio has a higher weighting of shorter duration bonds and corporate bonds than the FTSE Conventional Gilts Allstock Index. Overall, this has resulted in underperformance against the main index this year. An upward movement in yields led to an increase in the discount rate applied to long-tail general insurance liabilities. The change in discount rate on those liabilities resulted in a £4.4m profit being recognised within investment returns (2017: £1.4m loss).

The investment result includes a £1.6m return, net of discounting (2017: £2.8m) on assets held to support our long-term insurance liabilities. The net return more than offsets a £0.1m decrease (2017: £2.4m increase) in long-term insurance claims liabilities which benefited from a favourable development in future costs described below.

Investment management

The Group's investment management business, EdenTree, continued to develop its presence in the Charity and Institutional markets. Net inflows to funds of £181m (2017: £121m net inflow) were the best in EdenTree's history, with institutional business boosted by further mandate wins from a European global bank.

The weakness in global equity market returns in 2018 has broadly offset the net fund inflows in the period, therefore total funds under management remain at £2.7bn (2017: £2.7bn).

Fee income has grown 8% to £12.6m (2017: £11.7m). Overheads have increased by 15% in the year mainly due to continued investment in technology and systems to deliver the future growth plans of the business and support MiFID II reporting requirements. As a result pre-tax profits in the period decreased to £0.9m (2017: £1.7m).

Long-term insurance

The life business insurance result for 2018 was a profit of £1.5m (2017: £0.4m). Ecclesiastical Life Limited (ELL) is closed to new business and the main contributor to the increased profit in the year is due to the favourable development in reserves held for future costs, following the removal of the Solvency II audit requirement going forward.

Broking and advisory

The broking and advisory business comprises our insurance broker and financial advisory businesses, South Essex Insurance Brokers Limited (SEIB), Ecclesiastical Financial Advisory Services Limited (EFAS) and in 2018 Ansvar Risk Management Services (ARMS). SEIB reported a marginal decrease in profit before tax to £2.4m (2017: £2.5m). EFAS reported a small loss of £0.2m in the year (2017: £0.2m loss) and ARMS reported a loss of £0.2m.

Overall, our broking and advisory business had modest growth in income and maintained profit, reporting a pre-tax profit of £2.0m (2017: £2.3m profit).

The Group takes a long-term view in its approach to managing and investing in the business and as such is focused on delivering sustainable profitability with steady, measured growth. As we look forward to 2020, we continue to focus on our vision to be the most trusted and ethical financial services group and remain optimistic about the opportunities to continue to evolve our business and contribute to the greater good of society.

Denise Cockrem
Group Chief Financial Officer

Ansvar Australia

Helping the aged care sector manage its risks

Ansvar Australia is using its expert knowledge to guide customers in the aged care market through a period of significant change and uncertainty. Aged care providers are currently participating in the Royal Commission into Aged Care Quality and Safety. The Royal Commission was launched as a result of rising concerns about failings of care and a system that is no longer fit for purpose. It comes at a time when the market is already dealing with significant complexity and disruption, including the introduction of new regulation, increasing care needs and financial pressures.

In response to these challenging circumstances, Ansvar Australia recognised that to meet the needs of our customers we would have to provide a response that goes beyond insurable risk transfer. We have taken a lead in helping organisations understand what the Royal Commission means for their governance, risk management and insurance, and helping them to make improvements.

As experts in the sector, the Ansvar team uses a range of resources and tools to help organisations to respond to this complexity including enterprise risk management consultancy support such as risk maturity assessments, risk improvement planning and strategic workshops.

Ansvar's risk consultants have been touring the country to present at aged care forums, partnering with brokers and discussing the importance of risk management with their clients. In 2018 they reached more than 320 brokers and continue to support the market through this turbulent time.

"I have worked with Ansvar over the past eight years to provide insurance for our clients. More recently, I have worked closely with their risk management team to give our clients a greater understanding of not just insurance, but how they can improve how they manage their risk in the daily running of their business."

"Ansvar excel in their chosen fields of insurance and this is why I chose to partner with them, particularly in the risk management space."

Sophie Laube
Client Manager
Aon

Building a movement for good

‘The Group takes a long-term view in its approach to managing and investing in the business and as such is focused on delivering sustainable profitability with steady, measured growth.’

Section Two

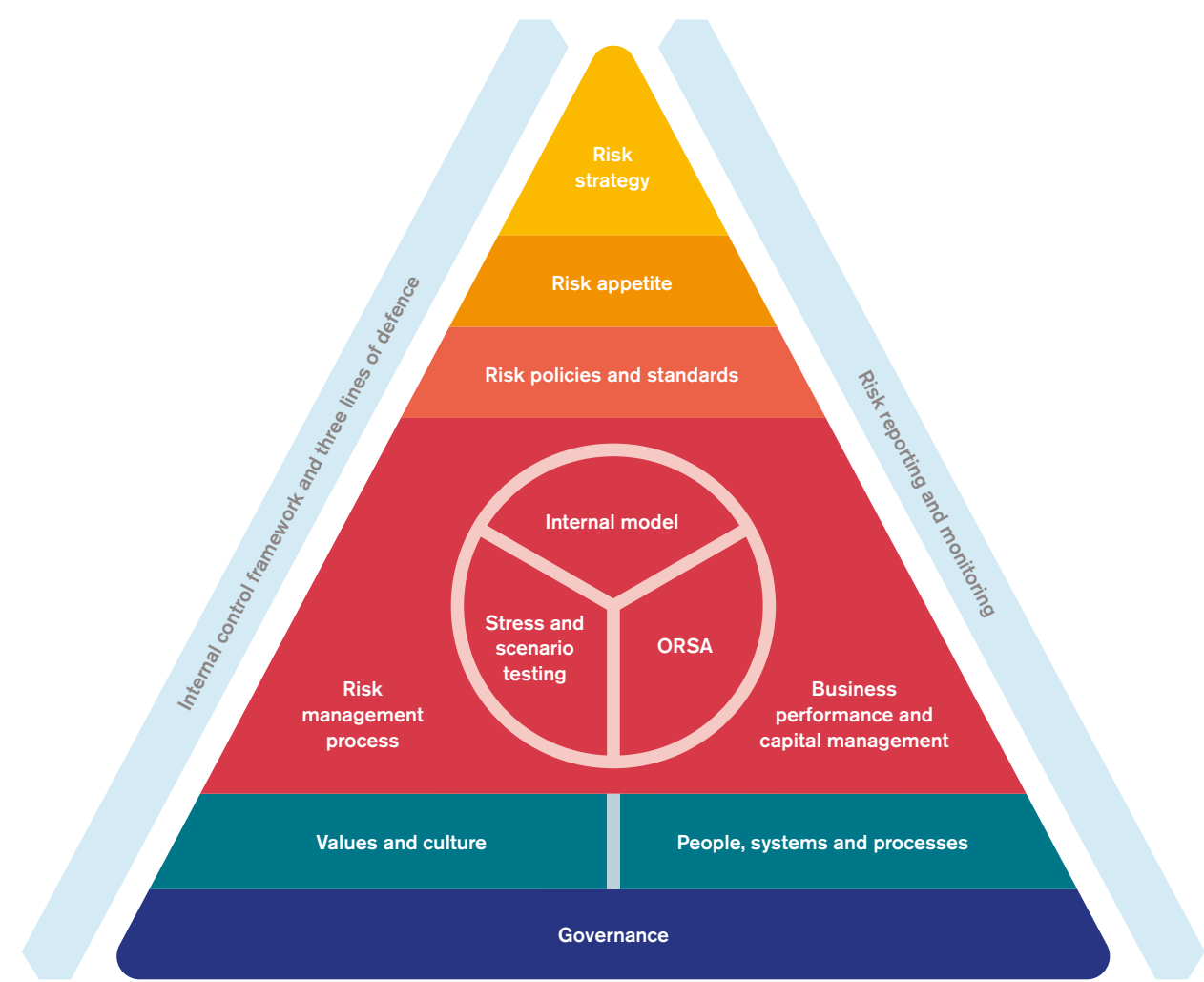
Strategic Report

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Risk Management Report

Introduction

Strong governance is fundamental to what we do and drives the ongoing embedding of our enterprise-wide risk management framework. This provides the tools, guidance, policies, standards and defined responsibilities to enable us to achieve our strategy and objectives. This also ensures that individual and aggregated risks to our objectives are identified and managed on a consistent basis.



The risk management framework is integrated into the culture of the Group and is owned by the Board. Responsibility for implementation and oversight is delegated via the Group Chief Executive to the Group Risk Function, led by the Group Chief Risk Officer.

The risk management process demands accountability and is embedded in performance measurement and reward, thus promoting clear ownership for risk and operational efficiency at all levels. On an annual basis, the Group Risk Committee (on behalf of the Board) carries out a formal review of the key strategic risks for the Group with input from the GMB and the Strategic Business Units (SBUs). The Group Risk Committee (GRC) allocates responsibility for each of the risks to individual members of the Group's executive management. Formal monitoring of the key strategic risks is undertaken quarterly including progress of risk management actions and any gaps in risk mitigants are challenged by the Executive Risk Committees.

Clarity of responsibility and accountability for the management of risk is the cornerstone of any effective Risk Management Framework and successful business. Ecclesiastical has clearly defined the accountabilities, roles and responsibilities of all key stakeholders in implementing and maintaining its Risk Management Framework. These are defined, documented and implemented through the terms of reference (TORs) of board sub committees, management and executive forums, position descriptions and functional charters.

The Group's Risk Management Framework itself is part of a wider Internal Control Framework.

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

Key to the successful operation of the internal control framework is the deployment of a strong Three Lines of Defence Model whereby:

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

We seek to develop and improve our risk management framework and strategy on an ongoing basis to ensure it continues to enable us to achieve our strategy and objectives.

The Group risk appetite defines the level of risk-taking that the Board feels is appropriate for the Group as we pursue our business objectives. It is defined in line with the different categories of risk that the Group faces, and provides the backdrop against which the business plan is developed and validated. This ensures that the risk profile resulting from the business plan is in line with the risk-taking expectations of the Board. Compliance with the risk appetite is formally monitored every quarter and reported to the Group Risk Committee at each meeting.

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

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

During 2018 the Group received regulatory approval for the use of our Internal Model as the basis for the calculation of our regulatory capital requirement.

Risk environment

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

The uncertainty around the outcome of Brexit carries risks for all UK-based firms. The main risk facing the Group is the loss of its ability to carry out business in the Republic of Ireland using the freedom to provide services currently afforded by the United Kingdom’s membership of the EU. This risk is being mitigated by the submission of an application for the Ireland branch to become regulated by the Central Bank of Ireland as a Third Country branch after Brexit. The Group has no other material business elsewhere in the EU. The uncertainty created by Brexit has the potential to result in adverse economic conditions and impact the Group’s investments and our customers. We have not identified any further material risks to our business as a result of Brexit although we continue to monitor the situation closely.

During 2018 we have continued to take a high level of market risk to give the potential for investment growth. Our investment strategy has been refreshed, though there has not been a material change to our asset mix. A programme of de-risking interest rate and inflation risk in the defined benefit pension scheme was completed during the year and the company took the decision following consultation with members to cease accrual in the scheme for future service after June 2019 which will enable further decreases to the risk associated with the scheme.

Within the insurance market firms continue to enhance their analytical skills and deepen their portfolio knowledge. Therefore, high quality technical underwriting standards, pricing and portfolio management abilities are increasingly important to ensure business written and retained is profitable. Our strategy is to achieve controlled and profitable growth within our defined niches.

The potential for adverse development of long-tail liability claims, particularly in respect of PSA claims, remains a risk that we continue to actively manage. The Independent Inquiry into Child Sexual Abuse in the UK is continuing and we continue to monitor this and developments in the other territories in which we operate to determine the potential impact on these claims.

Competitor activity is an ever present risk across all our business operations and chosen niches that could threaten our ability to grow or even lead to a decline in scale with resultant adverse financial impact.

There has been significant regulatory change during 2018; the most material being the implementation of GDPR, IDD, MiFID II and SMCR. Management of continued change in the regulatory environment will remain a focus for us in light of uncertainty in the direction of regulation following Brexit.

Worldwide, cyber risk remains a constantly evolving threat with potential for a significant event involving loss of customer data that could result in significant operational disruption and an impact on our service to customers as well as sizeable regulatory fines and reputational damage. Regulations such as GDPR and a greater societal focus on the importance of security and appropriate use of individuals’ data also increase the prominence of data management risks for all companies.

Maintaining a positive reputation is critical to our vision of being the most trusted and ethical specialist financial services group. Our reputation could potentially be damaged as a result of a range of factors including poor business practices and behaviours. High standards of conduct are a core part of the Group’s brand, values and culture and there is an ongoing focus on ensuring this is maintained.



SEIB

Supporting funeral directors through a period of change

Insurance broker SEIB is a recognised leader in the field of funeral directors' insurance. With over 50 years' experience in the market, SEIB is recommended by the biggest body within the industry – the National Association of Funeral Directors (NAFD) – as the preferred insurance provider for funeral directors and ancillary trades.

In April 2017, as a forerunner to introducing regulation for funeral directors in Scotland, the Scottish Government appointed an independent Inspector of Funeral Directors following recommendations on how this might benefit the industry, along with recognising the importance of introducing, promoting and maintaining standards of practice.

Once rolled out in Scotland, it is expected that regulation will make its way to the rest of the UK, and many traditional funeral directors are in the dark about how this will affect their businesses.

As a trusted supplier to the NAFD, SEIB has stepped in during 2018 to provide expert guidance and advice to the body and its members, as UK funeral directing moves towards becoming a regulated industry. Coming from a sector that is accustomed to working in a regulated environment, SEIB is well placed to help support this beneficial change.

Covers that were not previously seen as a necessity will with regulation become vital in ensuring that funeral directors have comprehensive protection for their business and reputation.

SEIB continues to develop and expand the cover offered by its bespoke Funeral Directors' Business Insurance Scheme, ensuring that it remains relevant to the changing needs of this specialist client group both today and in the future.

Building a movement for good

Principal risks

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

Insurance risk

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

Risk detail	Key mitigants	Change from last year*
Underwriting risk The risk of failure to price insurance products adequately and failure to establish appropriate underwriting disciplines. The premium charged must reflect the cover provided and the risk presented to the Group.	• A documented underwriting strategy and risk appetite is in place and monitored by SBUs • This is supported by formally documented authority levels for all underwriters which must be adhered to. Local checking procedures ensure adherence • Monitoring of rate strength compared with technical rate is undertaken on a regular basis within SBUs • There are ongoing targeted underwriting training programmes in place	This risk has not changed materially during the year. 
Reserving risk Reserving risk is the risk of actual claims payments exceeding the amounts we are holding in reserves. This arises primarily from our long-tail liability business. Failure to interpret emerging experience or fully understand the risks written could result in the Group holding insufficient reserves to meet our obligations.	• Claims development and reserving levels are closely monitored by the Group Reserving team • For statutory and financial reporting purposes, prudential margins are added to a best estimate outcome to allow for uncertainties • Claims reserves are reviewed and signed-off by the Board acting on the advice and recommendations of the Group Reserving Actuary, Actuarial Function Director, the Reserving Committee and the Group Audit Committee	This risk has not changed materially during the year. 

Risk detail	Key mitigants	Change from last year*
Catastrophe risk The risk of large scale extreme events giving rise to significant insured losses. Through our general insurance business we are exposed to significant natural catastrophes in the territories in which we do business.	• There is a comprehensive reinsurance programme in place to protect against extreme events. All placements are reviewed and approved by the Group Reinsurance Board • Modelling is undertaken to understand the risk profile and the impact of reinsurance protections • A Catastrophe Risk Management Group provides oversight and sign off of reinsurance modelling • Local risk appetite limits have been established to manage concentrations of risk and these are monitored by SBUs	There have been no material changes to this risk since last year but this risk has been specified separately on the Group Risk Profile for completeness. We continue to monitor our aggregations and exposures to such events and purchase the appropriate protections. 
Reinsurance risk The risk of failing to access and manage reinsurance capacity at a reasonable price. Reinsurance is a central component of our business model, enabling us to insure a portfolio of large risks in proportion to our capital base.	• We take a long-term view of reinsurance relationships to deliver sustainable capacity • A well-diversified panel of reinsurers is maintained for each element of the programme • A Group Reinsurance Board is in place which approves all strategic reinsurance decisions	The level of this risk has remained broadly similar since last year. 

 Link to viability statement – risk included in stress and scenario analysis
*change arrows reflect movement in underlying risks

Other financial risks

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

Risk detail	Key mitigants	Change from last year*
Market and investment risk The risk of adverse movements in net asset values arising from a change in interest rates, equity and property prices, credit spreads and foreign exchange rates. This principally arises from investments held by the Group. We actively take such risks to seek enhanced returns on these investments. The Group's balance sheet is also exposed to market risk within the defined benefit pension fund.	• An investment strategy is in place which is reviewed annually and signed off by the Finance and Investment Committee (F&I). This includes consideration of the Group's liabilities and capital requirements • A Market and Investment Risk Committee is in place and provides oversight and challenge of these risks and the agreed actions. There is a formalised escalation process to Group Management Board (GMB) and F&I in place • There are risk appetite metrics in place which are agreed by the Board and include limits on exposures and counterparties • Derivative instruments are used to hedge elements of market risk, notably equity and currency. Their use is monitored to ensure effective management of risk • There is tracking of risk metrics to provide early warning indicators of changes in the market environment Further information on this risk is given in note 4 to the financial statements on page 185.	There has been significant volatility in the investment markets in the last year and the outlook remains uncertain with global trade and Brexit concerns. We have de-risked elements of the defined benefit pension scheme. Overall the market risk profile is not materially changed and we remain invested for the long term. ↔ ♡
Credit risk The risk that a counterparty, for example a reinsurer, fails to perform its financial obligations to the company or does not perform them in a timely manner resulting in a loss for the Group. The principal exposure to credit risk arises from reinsurance, which is central to our business model. Other elements are our investment in debt securities, cash deposits and amounts owed to us by intermediaries and policyholders.	• Strict ratings criteria are in place for the reinsurers that we contract with and a Reinsurance Security Committee approves all of our reinsurance partners • Group Reinsurance monitors the market to identify changes in the credit standing of reinsurers • Strong credit control processes are in place to manage broker and policyholder exposures Further information on this risk is given in note 4 to the financial statements on page 185.	The level of this risk is unchanged from last year. ↔ ♡

Risk detail	Key mitigants	Change from last year*
Liquidity risk The risk that the Group, although solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure them only at excessive cost. We may need to pay significant amounts of claims at short notice if there is a natural catastrophe or other large event in order to deliver on our promise to our customers.	• We hold a high proportion of our assets in readily realisable investments to ensure we could respond to such a scenario • We maintain cash balances that are spread over several banks • We have arrangements within our reinsurance contracts for reinsurers to pay recoverables on claims in advance of the claim settlement	There have been no material changes to this risk since last year. ↔
Operational risk ♡ The risk of loss arising from inadequate or failed internal processes, people and systems, or from external events		
Systems risk The risk of inadequate, ageing or unsupported systems and infrastructure and system failure preventing processing efficiency. Systems are critical to enable us to provide excellent service to our customers.	• Systems monitoring is in place together with regular systems and data backups • A strategic systems programme is underway to deliver improved systems, processes and data • Business recovery plans are in place for all critical systems and are regularly tested according to risk appetite	The strategic systems programmes have made significant progress during 2018. The scale and complexity of these programmes bring a degree of change risk which we need to manage appropriately. Although reduced, we continue to carry a number of risks which have been mitigated through effective tactical approaches during 2018.

♡ Link to viability statement – risk included in stress and scenario analysis
*change arrows reflect movement in underlying risks

Risk detail	Key mitigants	Change from last year*
Cyber risk The risk of criminal or unauthorised use of electronic information, either belonging to the Group or its stakeholders e.g. customers, employees etc. Cyber security threats from malicious parties are increasing in both number and sophistication across all industries.	• A number of security measures are deployed to ensure protected system access • Security reviews and assessments are performed on an ongoing basis • There is ongoing maintenance and monitoring of our systems and infrastructure in order to prevent and detect cyber security attacks	The threats to our business continue to evolve. The controls in place to protect the business are subject to ongoing review and update. Overall the level of risk is unchanged but we acknowledge the need for vigilance and strong security measures. 
Change risk The risk of failing to manage the change needed to transform the business. A number of strategic initiatives are underway under six themes, including a transformation of our core system and key processes, which will deliver significant change for the company over the next few years. There are a number of material risks associated with major transformation, not only on the risks to project delivery itself, but the potential impacts on business as usual.	• We ensure that there is adequate resourcing for change projects using internal and external skills where appropriate • A Group Development Director is in place with responsibility for overseeing the delivery of all strategic initiatives • A Change Board and change governance processes have been established and are operated on an ongoing basis • The GMB undertakes close monitoring and oversight of the delivery of the strategic initiatives and key Group change programmes	The level of this risk has not materially changed. There is a significant volume of change within the business which will continue to be monitored closely. 

Regulatory and conduct risk

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

Risk detail	Key mitigants	Change from last year*
Regulatory risk The risk of regulatory sanction, operational disruption or reputational damage from non-compliance with legal and regulatory requirements. We operate in a highly regulated environment which is experiencing a period of significant change.	• We undertake close monitoring of regulatory developments and use dedicated project teams supported by in-house and external legal experts to ensure appropriate actions to achieve compliance • An ongoing compliance monitoring programme is in place across all our SBUs • Regular reporting to the Board of regulatory compliance issues and key developments is undertaken	There has been significant regulatory change during 2018. We remain focused on the management of regulatory change and therefore the overall risk level is unchanged. 
Conduct risk The risk of unfair outcomes arising from the Group’s conduct in the relationship with customers, or in performing our duties and obligations to our customers. We place customers at the centre of the business, aiming to treat them fairly and ethically, while safeguarding the interests of all other key stakeholders.	• Ongoing staff training to ensure that customer outcomes are fully considered in all business decisions • Customer charters have been implemented in all SBUs • Conduct Risk Reporting to relevant governing bodies is undertaken on a regular basis • Customer and conduct measures are used to assess remuneration • A Customer First Steering Group is in place comprising representatives from across the Group	The level of this risk is unchanged from last year. 

 Link to viability statement – risk included in stress and scenario analysis
*change arrows reflect movement in underlying risks

Longer-term viability statement

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

We have considered the risks presented by Brexit and at this stage do not perceive any material risk to the Group's viability.

The assessment of the Group's prospects by the directors covers the three years to

2021 and is underpinned by management's 2019-2021 business plans which make assumptions relating to: the prevailing economic climate and global economy; the structural challenges facing our sector; and the costs associated with delivering our strategy. They also include projections of the Group's capital, liquidity and solvency.

While the directors have no reason to believe the Group will not be viable over a longer period, a three-year outlook period has been selected. Given the rate of change in the markets in which the Group operates, three years provides an appropriate balance between the period of outlook and degree of clarity over specific, foreseeable risk events that could impact on the viability of the Group. The outlook period also aligns with the planning horizon in the business plan. Stress and scenario analysis has been performed with reference to the principal risks of the Group, which are documented on pages 68 to 73. The stresses are designed to be severe but plausible and assess the impact of certain events on the Group's profitability and capital strength. They include:

Scenario	Principal risks
Increase in attritional claims	Underwriting risk
1 in 50 year deterioration in PSA reserves	Reserving risk
10% reduction in GWP year on year	Underwriting risk
CAT windstorm combined with reinsurer default	Catastrophe and credit risk
1 in 20 investment market event	Market and investment risk
10% increase in annual operating expenses	Operational risk
Combined 1 in 20 and CAT windstorm	Market and investment risk, and catastrophe risk
Sustained economic downturn	Market and investment risk

Scenario testing found that the combined 1 in 20 and CAT windstorm scenario puts most strain on capital but does not result in a direct breach of regulatory requirements. A range of plausible mitigating actions has been identified and documented. The solvency position of the Group has been projected as part of the Own Risk and Solvency Assessment (ORSA), which is a private, internal, forward-looking assessment of own risk, required as part of the Solvency II regime. The forward-looking emphasis of the ORSA ensures that business strategy and plans are formulated with full recognition of the risk profile and future capital needs.

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

The directors have also considered the Group's ability to service its preference share borrowing and the dividend

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

Confirmation of viability

Based on the Group's strong capital position, the strong risk management framework in place and the Group's resilience to a variety of adverse circumstances as demonstrated in the results of the stress testing and potential mitigating actions, the directors confirm that they have a reasonable expectation that the Group will continue in operation and be able to meet its liabilities as they fall due over the next three years.

Section Two

Strategic Report

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Ecclesiastical Ireland

A leader in the education sector

2018 saw Ecclesiastical Ireland reinforce its leading position in the education sector. The business saw strong growth and won and retained a number of prestigious education clients.

Among the clients that chose to insure with us for the first time was Cistercian College Roscrea, a Catholic boarding school for boys located within the grounds of Mount St. Joseph Abbey in County Offaly. Founded by Cistercian monks in 1905, Cistercian College Roscrea is one of only two monastic schools in Ireland.

The school decided to move its business to Ecclesiastical after its bursar attended a presentation by our underwriting team. He was so impressed by the depth of knowledge in the team, not just in the education sector, but also our expertise in insuring heritage buildings, that he asked his broker to get a quote from Ecclesiastical.

Another of the organisations to move its business to us was Griffith College, Ireland's largest independent further education institution. Established in 1974, Griffith College has 7,000 students at locations in Dublin, Cork and Limerick and enjoys a growing national and international reputation for student success.

After narrowly missing out on winning the college's business the previous year, we continued to develop our relationship with its broker and ultimately demonstrated that our expertise in the sector made us the perfect partner for the college.

"From the initial presentation to discussing our needs and arranging a pre-quote survey, I was impressed with the expertise and professionalism of the Ecclesiastical team. Their in-depth knowledge of the education and heritage sectors makes them the perfect partner for Cistercian College Roscrea."

John Hanamy
Finance Director
Cistercian College

Building a movement for good

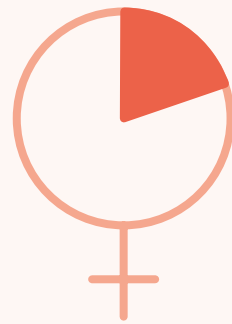


Corporate Responsibility Report 2018 highlights

Our workplace

29.9%

of senior management roles globally filled by women (2017: 23.3%)



86%^{+ve}

of staff say 'I am proud to work for this company' (+5% on Financial Services benchmark) (2017: 88%)



89%^{+ve}

'In my opinion my company is committed to customer satisfaction' (2017: 91%)

80%

of all our managers received mental health and wellbeing training in just one week

Our community

£18.8m

total charitable giving (2017: £27.5m)



94,000

nominations for 6,000 charities during our #12days of Giving programme



60%

of employees took up volunteering time (2017: 60%)

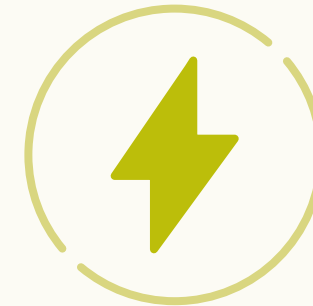
90%

of employees engaged in giving (2017: 90%)

Our environment

78%

electricity from renewable sources (2017: 73%)



Carbon footprint

All but one of EdenTree funds better than benchmark



30% increase

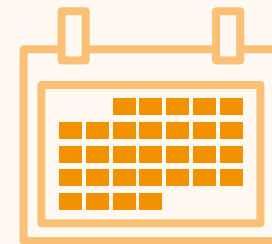
in recycled waste

1,118 tonnes

total carbon emissions, Scopes 1-3 (2017: 1,076 tonnes*)

*2017 excludes our Ansvar UK business. The footprint comparable to 2017's reporting is broadly unchanged.

Our marketplace



69%

of suppliers paid within 30 days, published as part of the Payment Practices and Performances Reporting

10th year running

as Best Ethical Investment Provider



Three wins

at the Insurance Post Claims Awards for training, customer care and contribution to the industry

Fairer Finance Gold Standard

for the 8th year running

Overview

CR at Ecclesiastical has an established structure and governance which includes Board visibility and responsibility for overarching strategy; a senior-level Steering Group providing leadership; and local business ownership of activity.

Independent assessment and accreditation is an important aspect of maintaining and raising standards. We continue to hold standards including Living Wage, Business In The Community’s CommunityMark, Women in Finance and the Fairer Finance Gold Ribbon. Our ethical investment business EdenTree maintains a number of memberships including the UK Sustainable Investment and Finance Association, UN Principles for Responsible Investment and the Institutional Investors Group on Climate Change.

In 2018 we joined ClimateWise, the industry’s voluntary commitment to tackling climate change.

We use a materiality approach to drive our strategy. In 2018 we refreshed our approach through an internal review process and an external stakeholder roundtable. Key issues we have identified include climate change, cyber security, charitable giving, diversity and governance.

Read more about our governance of CR, assessment of the external environment and materiality assessment in our full CR Report on our website.

Gender by level

	Male	Female	Total
Group Management Board	3	4	7
Senior Leader	76	33	109
Manager	241	163	404
Team Member	379	620	999
Total	701	820	1521

Gender pay gap

	2018	2017
Fixed pay gap mean/median	30.6%/23.5%	30.7%/25.0%
Bonus pay gap mean/median	55.8%/36.5%	53.5%/33.1%

Ethnicity

White	Prefer not to say	BME	Total
1257	185	79	1521

‘Building a movement for good is about demonstrating we are a different kind of business, doing the right thing in every aspect of what we do. We’re proud to report on our performance and achievements in a wide range of responsible business areas.’

Our workplace

We foster an open and responsible culture which means supporting our employees, developing talent at all levels, encouraging diversity and providing a positive and engaging working environment.



Our approach to leadership and culture was strengthened throughout 2018 with the rollout of core cultural elements and a second cohort of leaders from all parts of our Group embarking on a leadership development programme. We also provided appropriate training for senior colleagues to implement the Senior Managers and Certification Regime.

A higher proportion of our more senior roles are being filled by women which resulted in a falling pay gap. Two years since signing up to the Women in Finance Charter, women now make up 29.9% of our senior management roles globally, increased from 23.3% in 2017.

In 2018 we launched our General Insurance Academy to provide a structured development framework for roles in our general insurance business. We delivered over 800 Bitesize training sessions, retained our Chartered Insurer status and achieved Chartered Insurance Broker status for all of the divisions in our broker Lycetts. Following an independent external mental health and wellbeing review in the UK we introduced self-referral counselling to our private healthcare scheme and 80% of our managers attended workshops to reflect and discuss mental health in just one week.

We also continued to uphold Living Wage status. Ecclesiastical Canada was included in Canada's Top 100 Employers for Young People for the seventh consecutive year. Lycetts worked with educational charity Learning for Life which supports young people with a range of learning difficulties by providing work experience for one of their students.

Our community

Our ambition is to give even more to good causes, on our path to give £100m by 2020. In 2018 our total charitable giving was £18.8m and our direct giving from the Ecclesiastical Group was £1.8m. We rank fourth in the Directory of Social Change's UK Guide to Company Giving and we are the number one insurer.



We successfully sustained high levels of engagement with our giving – over 90% of our people participated in our employee giving initiative MyGiving and all of our eligible Select Brokers supported our programme which distributed nearly £100,000 for the second year.

Our giving achieved significantly greater reach in 2018 – whether it was through recognising church volunteers or by attracting more than 90,000 nominations for our £1,000 #12days donations to 120 charities. Dedicated partnerships made a targeted difference. With our support children's charity Coram reached 450,000 children at over 2,000 schools. We also established a new three-year partnership with The Prince's Foundation, funding their craft skills programme. Our Irish business supported partners in a number of ways including sleeping rough in support of Focus Ireland's 'Shine a Light on Homelessness' campaign.

Allchurches Trust, our charitable owner, gave a record £16.9m in grants in 2018 to over 1,100 good causes across the UK and Ireland, from churches running projects to support people experiencing homelessness to charities tackling loneliness in their local area. Under the auspices of Allchurches Trust our Australian and Canadian businesses also gave to their communities through grants programmes.

Our environment

We run our business in a responsible and sustainable way and in 2018 we included more parts of our Group in our carbon footprint reporting. All companies submitted environmental data and we will continue to work with them to find ways to minimise their impact.



We continued to reduce the impact of our UK fleet – the average fleet emission rate was 101g/km. The recycling programme at our head office was fully established and increased the volume of waste we sent for recycling by 30%. We provided all employees across our Group with a reusable hot drinks cup and even printed our first Impact Report on recycled coffee cups which were destined for landfill.

EdenTree, our ethical investment management business, continued to benchmark the carbon footprint of its fund range. Comparing the results of respective benchmarks highlights the carbon-aware approach we take to our portfolios.

Also in 2018 the Group re-joined ClimateWise, the insurance industry's voluntary initiative to tackle climate change. Some of the activities we included in our report were trialling smart water detectors to reduce flood damage, continuing to promote resilient reinstatement to our customers, our 'carbon aware' investment management approach and independently verifying our carbon footprint.

Our marketplace

We put customers at the heart of everything we do and this was recognised by a number of awards detailed elsewhere in this report. They included recognition for claims excellence, training, customer care, contribution to the industry and customer trust and happiness.



Our brokers and ethical investment management businesses received a number of accolades with EdenTree notably winning Best Ethical Investment Provider at the Moneyfacts Investment Life & Pensions awards for the tenth year in a row.

Governance and employee training and development underpin our belief in good practices relating to human rights, anti-corruption and anti-bribery risks. We trained our people on the General Data Protection Regulation and asked our employees to re-state their commitment to our Code of Conduct. We completed our annual Modern Slavery Act declaration and submitted our response to the Payment Practices and Performance Reporting for the first time.

Proactive initiatives underpin our ambition to do more for our customers. For example we launched the first Heritage Index to track the cost of materials and labour associated specifically with buildings of a traditional construction to reduce the risk of underinsurance. The Australian business is leading the way for our Group in the use of drone technology. In the UK we held our first Charity Advisory Panel – welcoming leading thinkers in the sector to share their perspectives on current issues.



Ecclesiastical Canada Protecting people

Founded in 1887 to protect church buildings from the risks of fire, Ecclesiastical has been an expert in the faith sector ever since. The risks facing the sector have changed significantly over the past 131 years and Ecclesiastical's risk management guidance has evolved to meet the needs of our customers.

A key example is how Ecclesiastical Canada has been working closely with customers to help them develop appropriate safeguarding policies and procedures to protect the vulnerable in our communities. In collaboration with the Archdiocese of Saint Boniface, Winnipeg, Manitoba, the Canadian team has created an online learning module that ensures safeguarding policies and procedures are being implemented at parish level. Drawing on our own expertise and working alongside a specialist online training provider we developed and launched the safeguarding module in October 2018.

Now all priests, Diocesan staff and safe church coordinators in each parish from across the Archdiocese have enrolled on the course. The online platform allows the Diocesan Safe Church Coordinator to see immediately who has taken the training and who has not. The system will also automatically remind those individuals who have yet to complete the online learning module to do so.

There is now huge customer demand for the module and Ecclesiastical is in the process of rolling the training out to numerous Roman Catholic and Anglican Dioceses across Canada.

"The e-learning module developed in partnership with Ecclesiastical Insurance fulfils an unmet need that most dioceses in Canada have had for many years. Our Church has a duty and an obligation to provide the safest environment possible for all of its parishioners and this programme will make our churches, schools and various activities safer."

Richard Fréchette
Diocesan Financial Administrator
Archdiocese of Saint Boniface

Building a movement for good

Strategic Report approval

The Strategic Report, outlined on pages 24 to 87, incorporates the Chief Executive’s Review, the Business Model and Strategy, the Key Performance Indicators, reviews of Financial Performance and Position and Risk Management, and the Corporate Responsibility Report and, when taken as a whole, is considered by the directors to be fair, balanced and understandable.

By order of the Board

Mark Hews
Group Chief Executive
19 March 2019

‘Our goal is to build
a sustainable, values-driven
business over the longer term,
while putting customers’ needs
first – especially in times of
need or change. This has seen
us develop extraordinary levels
of customer understanding
and care.’

Section Three

Governance

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Board of Directors



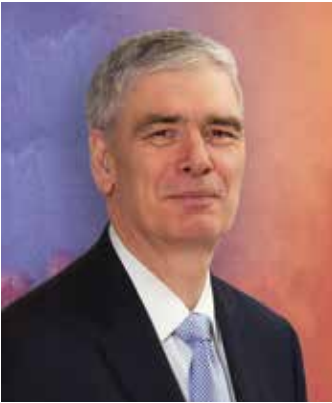
John Hylands (b)
Independent Non-Executive Chairman

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



The Very Reverend Christine Wilson (b) (e)
Senior Independent Non-Executive Director

Christine Wilson was appointed to the Board in June 2012 and has served for 20 years in ordained ministry. She was appointed as a Senior Independent Director in November 2017. She was Archdeacon of Chesterfield in the Diocese of Derby until October 2016 when she was installed as Dean of Lincoln. She was a member of the Church of England General Synod from 2010 to 2015. From December 2013 to 2016 she was participant observer on the House of Bishops. She is a member of The University of Lincoln Court. She has also been chair of a number of charities.



Tim Carroll (a) (b) (c) (d)
Independent Non-Executive Director

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



David Henderson (a) (b) (e)
Independent Non-Executive Director

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



Mark Hews (a)
Group Chief Executive

Mark Hews was appointed Group Chief Executive in May 2013 and was previously the Group Chief Financial Officer. He was appointed to the Board in June 2009 and appointed to the Board of MAPFRE RE in December 2013 and became a Trustee of The Windsor Leadership Trust in November 2017. He was formerly a Director of HSBC Life and Chief Executive of M&S Life. Prior to this he was Finance Director at Norwich Union Healthcare. He started his financial career at Deloitte (formerly Bacon and Woodrow) as a consultant and actuary.



Andrew McIntyre (c) (d)
Independent Non-Executive Director

Andrew McIntyre was appointed to the Board in April 2017. Andrew is the Senior Independent Director of C. Hoare & Co where he chairs the Audit, Risk and Compliance Committee, and an independent Non-Executive Director of Lloyds Bank Corporate Markets plc, where he also chairs the Audit Committee. He is an Independent Non-Executive Director of National Bank of Greece S.A. and chairs its Audit Committee. Previously, Andrew was for 24 years a partner in EY, and was for nine years Chairman of the Board of Southern Housing Group, one of the largest housing associations in the UK.

Key to membership of Group Board Committees

(a) Group Finance and Investment
(b) Group Nominations
(c) Group Risk
(d) Group Audit
(e) Group Remuneration



Chris Moulder (c) (d) (e)
Independent Non-Executive Director

Chris Moulder was appointed to the Board in September 2017. Chris retired in 2017 after five years at the Bank of England as Director of General Insurance at the Prudential Regulation Authority. Prior to this he had spent 26 years with KPMG as a partner in its Financial Sector practice. He is also a Director of the Insurance Board of Lloyds Banking Group and of Tokio Marine Kiln.



Caroline Taylor (a) (d) (e)
Independent Non-Executive Director

Caroline Taylor was appointed to the Board in September 2014. Until May 2012 she was a Director of Goldman Sachs Luxembourg and Dublin based SICAV Funds, having spent her executive career in financial services principally in asset management. She is currently a Non-Executive Director of Floors Castle Outdoor Events and Brewin Dolphin Holdings plc.



S. Jacinta Whyte (c)
Deputy Group Chief Executive, Managing Director UK

Jacinta Whyte was appointed Deputy Group Chief Executive and joined the Board in July 2013 with responsibility for the Group's General Insurance business globally. She was appointed to the Ansva Australia Board during 2013. Jacinta joined Ecclesiastical in 2003 as a General Manager and Chief Agent of the Group's Canadian business, a role which she continues to hold. Having commenced her career as an underwriter for RSA in Dublin in 1974, she moved with them to Canada in 1988 holding a number of senior executive positions in both Ireland and Canada.

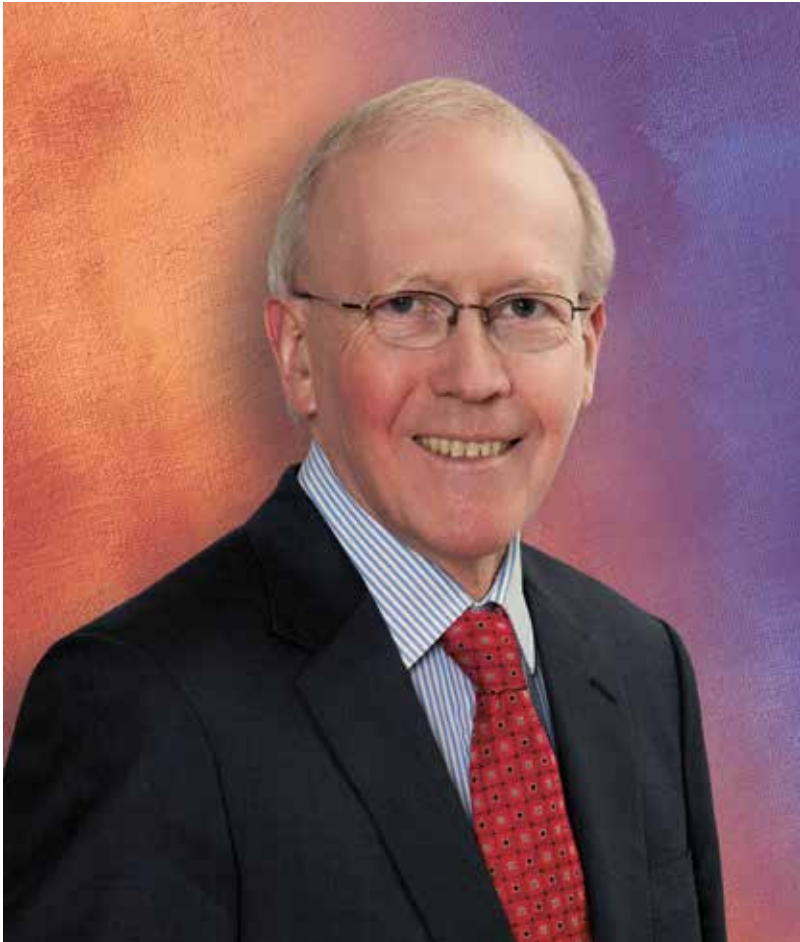
Key to membership of Group Board Committees

(a) Group Finance and Investment
(b) Group Nominations
(c) Group Risk
(d) Group Audit
(e) Group Remuneration

Board diversity

	2018	2017
Balance of Non-Executive Directors and Executive Directors		
Non-Executive Directors: Executive Directors	7:2	9:3
Gender Balance		
Male : Female	6:3	8:4
Length of Tenure		
(Chairman and Non-Executive Directors)		
0 – 3 years	3	3
3 – 6 years	2	3
6 – 9 years	1	2
10 years +	1	1
Geographical Mix		
United Kingdom	7	10
Rest of Europe	1	1
North America	1	1
Rest of World	0	0
Age		
35 – 45	0	0
45 – 55	1	2
55 – 65	6	7
65 +	2	3

Directors' Report



The directors submit their Annual Report and Accounts for Ecclesiastical Insurance Office plc, together with the consolidated financial statements of the Company for the year ended 31 December 2018. The Group Chief Executive's Review, Strategic Report and Corporate Governance section (this includes Board Governance, the Group Finance and Investment Committee Report, the Group Nominations Committee Report, the Group Risk Committee Report, the Group Audit Committee Report and the Group Remuneration Report) are all incorporated by reference into this Directors' Report.

Principal activities

The Group operates principally as a provider of general insurance in addition to offering a range of financial services, with offices in the UK, Ireland, Canada, and Australia. A list of the Company's subsidiary undertakings are given in note 33 to the financial statements on page 230 and details of international branches are shown on page 239.

Ownership

At the date of this report, the entire issued Ordinary share capital of the Company and 3.16% of the issued 8.625% Non-Cumulative Irredeemable Preference Shares of £1 each ('Preference shares') were owned by Ecclesiastical Insurance Group plc. In turn, the entire issued Ordinary share capital of Ecclesiastical Insurance Group plc was owned by Allchurches Trust Limited, the ultimate parent of the Group.

Board of directors

The directors of the Company during the year and up to the date of this report are stated on pages 92 to 94.

Anthony Latham and Denise Wilson resigned as NEDs on 14 June 2018 and 21 August 2018 respectively. Ian Campbell resigned as Group Chief Financial Officer and a director on 31 August 2018. John Hylands will resign as a director and Chairman at the conclusion of the Board Meeting on 19 March 2019. David Henderson will succeed John Hylands as Chairman.

Mr Boisseau and Mr Winther will be appointed as NEDs at the conclusion of the Board Meeting on 19 March 2019.

In line with the Financial Reporting Council's (FRC) 2016 UK Corporate Governance Code (the Code) the Board has voluntarily chosen to comply with the recommended annual re-election of directors. With the exception of John Hylands who will

retire at the Board meeting on 19 March 2019, all directors who have served since the last annual general meeting (AGM) will be proposed for re-election at the forthcoming AGM. Mr Boisseau and Mr Winther will be recommended for election at the forthcoming AGM following recommendation from the Group Nominations Committee.

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

Neither the directors nor their connected persons held any beneficial interest in any Ordinary shares of the Company during the year ended 31 December 2018. There has been no change in this position since the end of the financial year and the date of this report.

The following directors of the Company, and their connected persons, held Preference shares in the capital of the Company at 31 December 2018:

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

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

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

Dividends

Dividends paid on the Preference shares were £9,181,000 (2017: £9,181,000).

The directors do not recommend a final dividend on the Ordinary shares (2017: £nil), and no interim dividends were paid in respect of either the current or prior year.

Charitable and political donations

Charitable donations paid, and provided for, by the Group in the year amounted to £18.8 million (2017: £27.5 million).

During the last 10 years, a total of £165.0 million (2017: £154.0 million) has been provided by Group companies for church and charitable purposes.

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

Financial instruments

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

Employees

The Group recognises the importance of building engagement to involve and inform employees. We use a range of communications channels to achieve this including briefings, conferences and publishing of financial reports and we welcome feedback and discussion. We respect diversity and are committed to providing a positive and engaging working environment. This includes giving full consideration to people with disabilities making adjustments and providing training and support where necessary.

Principal risks and uncertainties

The directors have carried out a robust assessment of the principal risks facing the Group including those that threaten its business model, future performance, solvency and liquidity. The principal risks and uncertainties, together with the financial risk management objectives and policies of the Group, are included in the Risk Management section of the Strategic Report and can be found starting on page 62.

Events after the reporting period

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

Going concern

The Financial Performance section on page 54 and Risk Management section of the Strategic Report starting on page 62 provide a review of the Group's business activities and describe the principal risks and uncertainties, including exposures to insurance financial risk, operational and strategic risk.

The Group has considerable financial resources: financial investments of £799.0m, 92% of which are liquid (2017: financial investments of £859.7m, 93% liquid), cash and cash equivalents of £109.4m and no borrowings (2017: cash and cash equivalents of £93.8m and no borrowings). Liquid financial investments consist of listed equities and open-ended investment companies, government bonds and listed debt. The Group also has a strong risk management framework and solvency position, and has proved resilient to stress testing. As a consequence, the directors have a reasonable expectation that the Group is well placed to manage its business risks successfully and continue in operational existence for at least 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Auditor and the disclosure of information to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information that the auditor is unaware, that could be needed by the auditor in order to prepare their report.

Having made enquiries of fellow directors and the Group's auditor, each director has taken all the steps that they ought to have taken as a director, in order to make themselves aware of any relevant audit information, and to establish that the auditor is aware of that information.

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

The Group Audit Committee reviews the reappointment of the auditor, including the auditor's effectiveness and independence, and recommends the auditor's reappointment and remuneration to the Board. Further details are disclosed in the Group Audit Committee Report on page 116.

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

Directors' responsibilities

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

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

In preparing these financial statements, IAS 1 requires that directors:

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

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

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

Responsibility statement

We confirm that to the best of our knowledge:

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

By order of the Board

John Hylands	Mark Hews
Chairman	Group Chief Executive
19 March 2019	19 March 2019

Section Three

Governance

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Corporate Governance

The Board of directors is committed to applying the highest standards of corporate governance and believes that the affairs of the Company should be conducted in accordance with best business practice. Accordingly, although the Company is eligible for exemption from the Financial Conduct Authority’s requirements related to corporate governance disclosures, the Company has chosen to voluntarily comply with the UK Corporate Governance Code 2016’s Main Principles and Code Provisions throughout the year ended 31 December 2018, where relevant to the Company. The Code is available from the FRC’s website. The Company does not have any shares with a Premium Listing on the London Stock Exchange and is therefore not legally required to comply with the Code or other legislation relating solely to quoted companies. The Corporate Governance disclosures include the Board Governance section, Group Nominations Committee Report, Group Risk Committee Report, Group Audit Committee Report and Group Remuneration Report.

Board Governance

The Board The Chairman and Group Chief Executive

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

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

Directors’ conflicts
A Conflicts Register is maintained by the Group Company Secretary to monitor and manage any potential conflicts of interest. Training on the Companies Act 2006 has been given to all directors and directors are regularly reminded of their duties. Any conflicts are declared at the first Board meeting at which the director becomes aware of a potential conflict and then recorded in the Conflicts Register. The Board considers all conflicts in line with the provisions set out in the Company’s Articles. The directors are required to review their interests recorded in the Conflicts Register on a biannual basis.

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

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

A reporting framework of business is approved annually by the Board to ensure that the Board is focused on the right issues and sufficient time is allowed for appropriate consideration and debate.

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

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

A Directors’ and Officers’ Insurance Policy is in place for all Group directors.

Board Committees
The Group has five Board Committees which are shown above. Details of all the Board Committees are contained within their respective reports that follow: the Group Finance and Investment Committee Report on page 106; the Group Nominations Committee Report on page 108; the Group Risk Committee Report on page 114; the Group Audit Committee Report on page 116; and the Group Remuneration Report on page 124.

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

Attendance at meetings
Directors are required to attend all Board meetings and strategy days as well as Committee meetings where they are members. In 2018, the Board held five scheduled meetings, an ad hoc meeting and a strategy day. In addition, the Board participated in regular training sessions.

John Hylands met with the NEDs without the Executive Directors present on a number of occasions throughout the year.

All directors receive papers and minutes for all meetings, unless restricted due to a conflict of interest. Papers are circulated electronically, generally one week in advance of all scheduled meetings. All directors have access to the Group Company Secretary and to independent professional advice at the Company’s expense as required.

It is the Board’s policy to record any unresolved concerns about the running of the Company or any proposed action in the Board minutes. During 2018, no director had any such concerns.

Below is a record of the directors' attendance for the Board meetings (including the strategy days) during 2018:

Board attendance table			
Executive Directors	Director since	Meetings eligible to attend	Meetings attended
Mark Hews	June 2009	7	7
S. Jacinta Whyte	July 2013	7	6
Ian Campbell	April 2014	4	4
Non-Executive Directors	Director since	Meetings eligible to attend	Meetings attended
John Hylands (Chairman)	September 2007	7	7
Tim Carroll	April 2013	7	7
David Henderson	April 2016	7	6
Andrew McIntyre	April 2017	7	6
Chris Moulder	September 2017	7	7
Caroline Taylor	September 2014	7	7
Christine Wilson	June 2012	7	7
Anthony Latham	March 2008	3	3
Denise Wilson	December 2010	4	4

During 2018, the Board made decisions on the following business issues and routine matters:

Strategic matters
Group Chief Executive's Report
Group Chief Financial Officer's Report
Financial performance and statements
Charitable donations and gift aid
Performance, strategic and business plans for Group businesses
Views from the Shareholder
Strategic Reviews of Lycetts and SEIB Insurance Brokers, EdenTree Investment Management Limited and Canada Irish Branch – Brexit

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

Operational matters
Group succession
Review of General Insurance business (Ansvar Australia)
Internal Model
Group reinsurance arrangements
Customer Excellence / Customer First Initiative
Health and Safety
Employee Engagement
Underwriting and pricing
Directors' and Officers' Liability Insurance
Group Technical Provisions

Projects and other matters
GI Systems and IT Project
Property Review
MAPFRE RE Investment

Governance and regulatory matters
Board and Committee composition
Board Evaluation results and action plan
Governance Framework and Board Charter
Board Diversity Policy
Capital requirements, solvency position and ORSA
Relationship with the regulator

Internal controls
The Board is ultimately responsible for the systems of risk management and internal control maintained by the Group and reviews their appropriateness and effectiveness annually. The Board views the management of risk as a key accountability and is the responsibility of all management and believes that, for the period in question, the Group has maintained an adequate and effective system of risk management and internal control that complies with the Code. Further details are set out in the Risk Management Report on page 62.

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

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

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

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

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

Relationship with shareholder
Ecclesiastical Insurance Group plc owns the entire issued Ordinary share capital of Ecclesiastical Insurance Office plc. Ecclesiastical Insurance Group plc

in turn is wholly owned by Allchurches Trust Limited with which the Board has an open and constructive relationship.

Protocols for the exchange of information between Allchurches Trust Limited and Ecclesiastical Insurance Group plc and its subsidiaries (including Ecclesiastical Insurance Office plc) are in place and cover performance, operations and financial position. There is at least one 'Common Director' (i.e. a Director who is a member of the Boards of Allchurches Trust Limited, Ecclesiastical Insurance Group plc and Ecclesiastical Insurance Office plc) who is expected to attend every Board Meeting. Tim Carroll and Denise Wilson (who resigned from both companies on 21 August 2018) were appointed as 'Common Directors'. She will be succeeded as a Common Director by Chris Moulder on 8 May 2019. The Common Directors present a summary of highlights from Allchurches Trust Limited Board meetings to the Directors. Both the Chairman and Group Chief Executive Officer regularly meet with Sir Philip Mawer the Chairman of Allchurches Trust Limited. Moreover regular dialogue takes place on Allchurches Trust Limited's expectations of the Group, strategy for the development of business and the grant from the group.

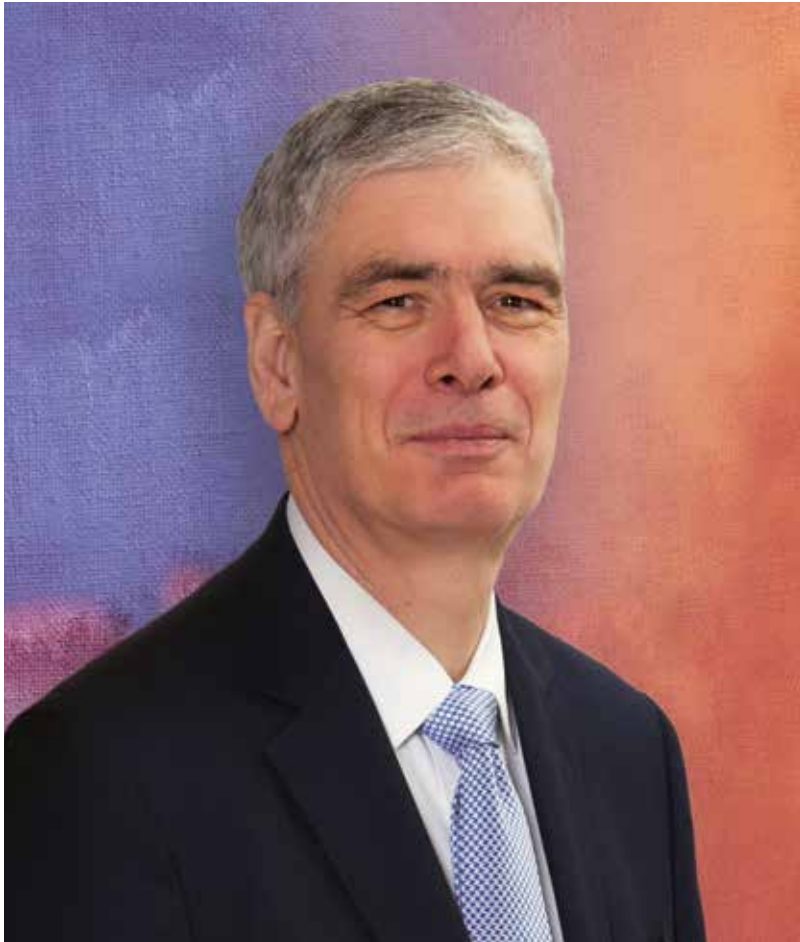
This ensures that the views of Allchurches Trust Limited are communicated to the Board as a whole which enables Allchurches Trust Limited to effectively communicate its views and expectations to the Board. In turn, the Common Directors are able to support the directors of Allchurches Trust Limited to understand the performance and strategic issues faced by the Company.

A conflict of interest policy which sets out how actual and perceived conflicts of interests between the two companies are managed is in place.

By order of the Board.

Mrs. R. J. Hall
Group Company Secretary
19 March 2019

Group Finance and Investment Committee Report



Chairman’s introduction
I am pleased to present the Group Finance and Investment Committee Report describing the work undertaken by the Committee during the past year. Ian Campbell stepped down from the Committee in August 2018 following his resignation from the Group. Mark Hews joined the Committee in his place.

Membership

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

Committee member	Member since	Meetings eligible to attend	Meetings attended
Tim Carroll (Chairman)	August 2013	6	6
Ian Campbell*	March 2016	3	3
Caroline Taylor	March 2016	6	6
David Henderson	June 2016	6	5
Mark Hews**	August 2018	3	3

* Ian Campbell was a member of the Committee until 31 August 2018
** Mark Hews was appointed to the Committee with effect from 31 August 2018

Committee meetings

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

The Committee held four scheduled and two ad hoc meetings during the year.

The Committee’s key responsibility is to ensure that, within designated financial limits, the management of the Group’s financial assets, including its investment portfolio, is properly governed, controlled and performing as expected. The Committee also reviews and advises on any major financial decisions including acquisitions and disposals on behalf of the Board.

In 2016, an external evaluation of the Board and its Committees was undertaken. The results of the evaluation recommended a review of the Committee’s purpose. The Committee therefore undertook a review of its role and remit, making recommendations to the Board, which were approved in June 2018. These included relinquishing responsibility for reviewing the Group’s strategies and policy relating to tax, treasury and capital management to appropriate committees within the Group.

During the year, the Committee reviewed the Group’s business plan investment assumptions; an ethical and responsible approach for the Group’s property portfolio; and the overall investment strategy. The latter included consideration of equity derivatives; and the approach and classification of listed infrastructure and renewable funds. The Committee also considered the outlook for financial markets and the likely impact of the UK’s withdrawal from the European Union on the Group’s Investment Portfolio. In addition, the Committee undertook a review of its own performance and set objectives.

By order of the Board.

Tim Carroll
Chairman of the Group Finance and Investment Committee
19 March 2019

Group Nominations Committee Report



Chairman’s introduction
I am pleased to present the Group Nominations Committee’s Report describing the work we have carried out during the past year. This report gives more detailed information on how we performed our duties in 2018.

Membership

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

Committee member	Member since	Meetings eligible to attend	Meetings attended
Christine Wilson	March 2016	3	3
Tim Carroll	January 2018	3	3
David Henderson	January 2018	3	3
John Hylands	May 2013	3	3

Group Nominations Committee meetings

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

The Committee held three scheduled meetings during the year, which were attended by the Group Chief Executive. The Committee’s key responsibility is to ensure that there is an appropriate balance of skills, knowledge and experience on the Board, its Committees and within the Group’s subsidiary companies. At its meeting held in February 2018, the Committee considered the Board’s performance against the objectives for 2017, set Board objectives for 2018, considered succession planning for the Board and its Committees, oversaw the appointment of a new Chairman to the Board and undertook the recruitment of two further Non-Executive Directors (NEDs).

Refresh of the Board

The Board Evaluation undertaken in 2017 had recommended that a refresh of the Board was undertaken to obtain potential Chairmen for the future. The refresh commenced in 2017 and continued during 2018. As part of this refresh, Anthony Latham retired at the AGM in June having served for nine years and Denise Wilson stood down from the Board in August 2018 having served almost eight years. John Hylands, who has also served for longer than nine years,

will resign as Chairman at the conclusion of the March Board Meeting.

Appointment of the Chairman

The SID led the recruitment for a new Chairman supported by an Appointments Panel, which comprised Chris Moulder, Caroline Taylor and Sir Laurie Magnus, a Director of the Parent Company. The External Board Evaluator had recommended that the new Chairman should be appointed from within the existing Board and that the Board member had served on the Board for at least a year to enable them to absorb the culture, the history and the workings of the Board. Although this recommendation was accepted in principle by the Committee, it was agreed that an external benchmarking exercise would be undertaken in parallel to considering internal candidates. The external benchmarking exercise was undertaken by Spencer Stuart & Associates Ltd (which had no other connection to the Group and which is a signatory to the Voluntary Code of Conduct on gender diversity and best practice).

After consideration of a number of candidates and with the benefit of the results of the benchmarking exercise, the Appointments Panel recommended to the Group Nominations Committee that David Henderson, who has been a director since April 2016, be recommended to the Board as Chairman elect, subject to regulatory approval.

This was agreed by the Committee (excluding Mr Hylands, the existing Chairman) and, subsequently, by the Board. Regulatory approval was received on 24 December 2018. The appointment will take effect from 19 March 2019 at the conclusion of the Board Meeting scheduled for that day.

David Henderson has spent his career in the financial services industry and brings robust leadership, integrity and expertise consistent with the Group's culture and values. He is currently a Senior Adviser to Kleinwort Benson Private Bank Ltd. He was independent on appointment as Chairman.

Appointment of NEDs

An Appointments Panel comprising Christine Wilson, Tim Carroll, David Henderson and Mark Hews was formed to commence the recruitment of two additional NEDs, one from an insurance and broking background, and the other, from an investment or corporate finance background. Spencer Stuart assisted the Appointments Panel with the recruitment. Following an external search and a series of interviews, two preferred candidates were identified and recommended to the Group Nominations Committee. After consideration, the Group Nominations Committee recommended the appointment of the two candidates to the Board at its meeting on 5 February 2019. Mr Boisseau and Mr Winther will be appointed as NEDs at the conclusion of the Board Meeting to be held on 19 March 2019.

Composition of Committees

Following an exercise undertaken in 2017, Chris Moulder was appointed as Chairman of the Group Risk Committee on 1 June 2018 to succeed Anthony Latham. In addition, David Henderson was appointed as Chairman of the Group Remuneration Committee on 23 April 2018 to succeed Denise Wilson. Following his appointment as Chairman of the Board, a NED will be appointed as Chairman of the Group Remuneration Committee. All of these changes received regulatory approval.

Succession Planning

The Board via the Group Nominations Committee formally reviewed the Group's Board and Leadership succession plan (including subsidiary Board composition) which is undertaken on an annual basis. In respect of each leadership role, emergency, short-term and long-term succession plans are considered and challenged by the Board to ensure that appropriate skills are in place to support the Group's 2020 vision.

NED appointment letters

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

Board diversity

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

The Board's objective by 2020, is to meet the targets set out in the Hampton-Alexander Review being 33% of women on boards. As at 18 March 2019, the Board had appointed three female members in a current membership of nine, which meets the 2020 targets. In addition, following a review of the Board Diversity Policy during the year, the Board has agreed to have regard to the Parker Review looking across the wider Group's Boards of Directors by 2020. This target has been met. The Board via the Group Nominations Committee will consider the progression of women to key roles including Chair, SID and executive directors as part of its regular review of succession planning.

Ecclesiastical aspires to having a Board that is diverse and encourages external search firms to identify and present candidates from all backgrounds, and with diverse skills and

personal qualities. As demonstrated in the Board Diversity table, the Company has a balanced and diverse Board. All Board appointments are made on merit, in the context of the overall requirements for Board diversity in terms of the skills, experience, background, gender and ethnic diversity required for the Board to be effective. The Board will take the opportunity, as and when appropriate, to further improve diversity in the wider sense and from all backgrounds as part of its Board recruitment practice.

The Board has also committed to meeting the targets set out in the Hampton-Alexander Review being to extend the 33% women on boards target to leadership teams in the FTSE 250 by 2020. At 18 March 2019, female representation on the Group Management Board stands at 57%.

The Company was a founding signatory to the Women in Finance Charter and has appointed Denise Cockrem as a senior executive responsible for diversity. During the year, the Company reported publicly on progress made against the initiative. Further information is provided in the Corporate Responsibility Report.

Board performance and evaluation

Induction

All directors are required to undertake a formal and comprehensive induction to the Group upon joining the Board. The induction is a three-stage process and is led by the Company Secretariat. On acceptance of a position on the Board, all directors receive an induction pack, which includes their appointment letter and terms; latest audited report and accounts; constitutional documents; protocols on conflicts of interest, the handling of price-sensitive information, directors' duties, share dealing, data protection and Board procedures; the Code; Board minutes for the current and past year; the Governance Framework

(including Expectations of SBUs and Board Charter), Board dates and contact details. After appointment, a two-day induction programme is provided where presentations are given by Company Secretariat, Group Compliance, Finance, Group Risk, Actuarial, Group Strategy, and heads of the Group's trading businesses. The programme is also offered to other directors as a refresher every two years and when a programme is being run. New directors meet individually with the Chairman of Allchurches Trust Limited, the Group Chairman, the SID and each of the executive directors.

The third stage of the induction is participation in the Board's CPD programme.

Training

Throughout the year, directors participate in the continuing professional development (CPD) programme, which includes internal training on topical issues (including business familiarisation) relevant to the Group's commercial and regulatory environment and attendance on relevant external CPD opportunities, funded by the Company.

In 2018, a number of training sessions took place which covered Internal Model, Senior Manager's Certification Regime, Investments and the world economy.

The Group Company Secretary maintains annual CPD records for all directors, which the Chairman reviews as part of their annual appraisal. Training and development needs of Board members are also reviewed by the Committee.

Performance evaluations

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

At the end of 2016, the Committee led an external evaluation of the Board and Committees, assisted by the Company Secretariat. An external board evaluation provider, BP&E Global Limited, which is not connected with the Group, conducted this evaluation. The outcome of the evaluations was considered by the Board and all recommendations were completed during 2017.

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

Re-election of directors

In line with the UK Corporate Governance Code, the Board has voluntarily chosen to comply with the annual re-election of directors who have served their initial term. NEDs are appointed for a period of three years, and are expected to serve a minimum of two consecutive terms, subject to satisfactory performance. Where NEDs have served for more than six years, the Group Nominations Committee has undertaken a rigorous annual review before they are recommended for annual re-election. The Report and Accounts accompany the AGM notice.

The biographical information for the Board members seeking election and re-election is contained within the Annual Report and Accounts.

The Board believes that all the NEDs were independent throughout 2018. Independence is reviewed as part of each director's annual appraisal, considered by the Committee, and agreed by the Board annually. In 2018 one NED, John Hylands, has served for more than nine years on the Board and will retire in March 2019 and Christine Wilson has served for more than six years. In addition, one director, Tim Carroll is a director of Allchurches Trust Limited. The Committee has considered

the circumstances and relationships of all NEDs and, following rigorous review, the Committee confirmed to the Board that all NEDs remained independent in character and judgement. No individual participated in the discussions relating to their own independence.

The Chairman is satisfied that the performance of each NED is effective and sufficient time has been spent on the Group's affairs.

Executive Directors' other commitments

External directorships are considered to be valuable in terms of broadening the experience and knowledge of executive directors, provided there is no actual or potential conflict of interest, and the commitment required is not excessive. All appointments are subject to approval by the Board, and the Conflicts Register maintained by the Group Company Secretary is used to monitor external interests. Any monetary payments received by executive directors from outside directorships are paid over to and retained by the Group.

NEDs' commitments

The Committee evaluates the time NEDs spend on the Company's business annually and is satisfied that, in 2018, the NEDs continued to be effective and fulfilled their time commitment as stated in their letters of appointment. Accordingly, all NEDs at the date of this report are recommended for re-election at the AGM.

By order of the Board.

Dean Wilson
Chairman of Group
Nominations Committee
19 March 2019

‘The Board has also committed to meeting the targets set out in the ‘Hampton-Alexander Review’ being to extend the 33% women on boards target to leadership teams in the FTSE 250 by 2020. At 18 March 2019, female representation on the Group Management Board stands at 57%.’

Group Risk Committee Report



Chairman’s introduction
I am pleased to present this report, my first as Group Risk Committee Chair, describing the work undertaken by the Committee during the past year. The Group has voluntarily chosen to include a Group Risk Committee Report in the Annual Report of the Company in addition to the disclosures in the Risk Management section on page 62. Anthony Latham, who had chaired the Committee since 2010, stepped down from the Committee in June 2018. Mark Bennett was appointed Group Chief Actuary in January 2018 and Debra Weekes succeeded John Schofield as Group Chief Risk Officer in July 2018.

Membership

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

Committee member	Member since	Meetings eligible to attend	Meetings attended
Anthony Latham (Chairman)**	June 2010	3	3
S. Jacinta Whyte	February 2014	5	5
Tim Carroll	August 2013	5	5
Andrew McIntyre	August 2017	5	5
Chris Moulder*	September 2017	5	5

* Chris Moulder was appointed as Chairman of the Group Risk Committee on 1 June 2018 to succeed Anthony Latham.
** Anthony Latham stepped down from the Committee on 14 June 2018.

Committee meetings

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

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

The Committee’s key responsibility is to assist the Board in monitoring the appropriateness and effectiveness of the Group’s risk strategy, appetite and profile; and risk management culture and framework. In addition, the Committee oversees the material risks of the Group. The Committee is also responsible for reviewing Group capital management and Internal Model scope, governance and validation.

A focus of the Committee’s work this year has been to ensure the successful Regulatory approval of the Internal Model (achieved in July) and the subsequent transition of the Model into business as usual. This has included monitoring the ongoing development, governance, methodology and calibration of the Internal Model; overseeing the validation cycle; agreeing Management Actions and reviewing the Profit and Loss Attribution. The Committee continues to review the Group’s ongoing capital and solvency requirements and other key Model uses.

During 2018, the Committee supported the Group Chief Risk Officer’s proposals to undertake a review of the Board’s risk

appetite reviewing those reserved for the Board and delegating the remainder to the Group Management Board. This work will conclude in 2019.

Additionally, during the year, the Committee has overseen the Own Risk and Solvency Assessment and Control Risk Self-Assessment processes and monitored material outsourcing risks. The Committee has received regular reports on compliance monitoring and breaches, fraud and financial crime, business continuity, cyber security, information security and the Money Laundering Reporting Officer’s Report. In addition, the Committee oversaw projects to implement the General Data Protection Regulations (GDPR), the Insurance Distribution Directive and the Senior Managers’ Certification Regime across the Group.

The Group Chief Risk Officer reports to the Committee and has direct access to the Committee Chairman and the NEDs. The Committee ensures that it meets with the Group Chief Risk Officer at least annually.

The Director of Group Compliance also reports to the Committee regularly and meets with the Committee at least once a year.

By order of the Board.

Chris Moulder
Chairman of the Group Risk Committee
19 March 2019

Group Audit Committee Report



Chairman’s overview
I am pleased to present the Group Audit Committee Report describing the work undertaken by the Committee over the past year, during which the Committee continued to focus its work on the Group’s financial reporting, internal and external audit arrangements, the effectiveness of the Group’s systems of internal financial controls and the management of financial risks.

Caroline Taylor joined the Committee in February 2018. Anthony Latham and Denise Wilson stepped down from the Committee in June and August 2018 respectively. Denise Cockrem replaced Ian Campbell as Group Chief Financial Officer. John Schofield stepped down as Director of Group Internal Audit in December 2018 having replaced Graham Searle in July 2018. Dan O’Loughlin was appointed Acting Group Chief Internal Auditor in January 2019.

Accurate and informative financial reporting and an effective control environment are of critical importance to the Board and the Group’s stakeholders and the Committee has continued to play a key role within the governance framework to support the Board in these areas.

The Committee has considered the processes underpinning the production and approval of this year’s Annual Report. From an accounting and reporting perspective, the significant issues considered in detail by the Committee are set out on pages 120 to 121.

The Committee seeks to ensure that the identification and management of significant risks is embedded across all areas of the business, with continued and effective oversight from the Group Management Board (GMB). We remain satisfied that the business has maintained a robust risk management and internal controls culture, supported by strong overall governance processes.

The Group’s principal risks and uncertainties are set out on pages 68 to 73. We have reviewed these in detail and are comfortable that the business has addressed them appropriately within its ongoing operating model and identification of strategic priorities.

In 2018, we have overseen the implementation of two significant accounting standards, IFRS 9 ‘Financial Instruments’, for parts of the Group, and IFRS 15 ‘Revenue from contracts with customers’. We have also overseen the preparations for IFRS 16 ‘Leases’ and have concluded we are set up for a smooth implementation of this standard in 2019. Looking ahead, we will be overseeing the project team that is preparing for IFRS 17 ‘Insurance Contracts’, which is described further in note 1 to the financial statements.

Andrew McIntyre
Chairman of the Group Audit Committee

Membership

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

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

Committee member	Member since	Meetings eligible to attend	Meetings attended
Andrew McIntyre (Chairman)	April 2017	6	6
Tim Carroll	April 2013	6	6
Anthony Latham*	December 2008	4	2
Chris Moulder	September 2017	6	6
Caroline Taylor	February 2018	6	6
Denise Wilson**	August 2011	5	3

* Anthony Latham was a member of the Committee until 14 June 2018.
** Denise Wilson was a member of the Committee until 21 August 2018.

Committee meetings

The Committee comprised the directors shown in the table above who were appointed by the Board. The Committee held six scheduled meetings during the year. In addition to the members of the Committee, the Chairman of the Board, the Group Chief Executive, the Group Chief Financial Officer, the Deputy Group Chief Executive and the Director of Group Internal Audit (GIA) attend meetings by invitation. Other relevant people from the business are invited to attend certain meetings in order to provide a deeper level of insight into key issues and developments. Deloitte, the Group's external auditor, is invited to attend meetings, and during 2018 they attended all six of the meetings held.

The Committee meets with the Director of GIA on an annual basis, without management present, to discuss the GIA function and any issues arising from its activity. In addition, the Committee meets with Deloitte on an annual basis, without management present, to discuss the external audit and any issues arising from it.

The Committee's key responsibilities include:

- monitoring the integrity of the financial statements;
- challenging the Group's financial reporting, and reporting upon anything that it is not satisfied with;
- reviewing regulatory reports;
- reviewing tax strategy and policies;
- reviewing the Group's whistleblowing arrangements;
- reviewing the Group's audit arrangements, both externally and internally; and
- reviewing the effectiveness of the Group's systems of internal controls and the management of financial risks.

During 2018, following the outcome of a review of the role and remit of the Group Finance and Investment Committee, the Board delegated responsibility for reviewing Group tax strategy and policy to the Committee.

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

Auditor appointment, independence and non-audit services

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

Deloitte was initially appointed as the Group's external auditor in 1998 and was re-appointed in 2015 following a formal tender process. The external audit is led by the Deloitte audit partner Paul Stephenson who has held the role for the Group for four years. The Committee plans to commence an audit tender process in 2019 to take effect for the financial year ending 31 December 2020. The Company confirms that it complied with the provisions of the Competition and Markets Authority's Order for the financial year under review.

Both the Board and the external auditor have safeguards in place to protect the independence and objectivity of the external auditor.

The Committee is responsible for the development, implementation and monitoring of the Group's policy on the provision of non-audit services by the external auditor. The policy is reviewed annually by the Committee.

The Committee oversees the plans for the external audit to ensure it is comprehensive, risk based and cost effective. Deloitte drafted an initial audit plan for the 2018 audit and presented it for review by the Committee at its November meeting. The plan described the proposed scope of the work and the approach to be taken, and also proposed the materiality levels to be used which are described on page 156. In order to focus the audit work on the right areas, the auditors identify particular

risk issues based on their knowledge of the business and operating environment, discussions with management and the half-year review. The fee for the audit is also proposed as part of this discussion.

For the year ended 31 December 2018, the Group was charged £556,000 (ex VAT) by Deloitte for audit services. The fees for other assurance services required by legislation and/or regulation amounted to £132,000, making total fees from Deloitte of £688,000. There were no non-audit services provided by Deloitte during the year. More detail can be found in note 12 to the financial statements on page 202.

External audit effectiveness

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

Questionnaires are completed by senior management, business unit leaders and those members of staff most involved in the external audit process. Following review of the questionnaires and the Committee's own assessment of external audit process, the Committee concluded that Deloitte continued to perform effectively and has recommended to the Board that Deloitte be reappointed under the current external audit contract and the directors will be proposing the reappointment of Deloitte at the AGM in June 2019.

Appropriateness of the Group's external financial reporting

The primary role of the Committee in relation to financial reporting is to review, challenge and agree the appropriateness of the

half-year and annual financial statements and annual regulatory reporting under Solvency II concentrating on, amongst other matters:

- the quality and acceptability of the Group's accounting policies and practices;
- the clarity of the disclosures and compliance with financial and regulatory reporting standards and relevant financial and governance reporting requirements;
- material areas in which significant judgements have been made by the Group or there has been discussion with the external auditor;
- whether the Group's Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- any correspondence from regulators in relation to financial reporting.

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

The Committee reviewed and challenged the Group's annual regulatory submissions under Solvency II in the second quarter of the year. The Group Audit Committee focused on the reporting requirements of the publicly filed SFCR and QRTs and privately filed RSR.

The significant areas of focus considered by the Committee in relation to the 2018 accounts, and how these were addressed, are outlined below. These were discussed and agreed with management during the course of the year, and we also discussed them with Deloitte at both the half year and year end. The nature of these issues and how they are mitigated is explained in more detail in the Risk Management Report on page 62, and also note 2 to the financial statements on page 179.

Matter considered	Action
General insurance reserves The estimation of the ultimate liability arising from claims under general business insurance contracts is a critical accounting estimate. There is uncertainty as to the total number of claims on each class of business, the amounts that such claims will be settled for and the timings of any payments.	The Committee considered detailed reports provided by the Group's Reserving Actuary on the adequacy of the Group's general insurance reserves at both the half year and the full year and discussed and challenged management across a wide range of assumptions and key judgements. This is a major area of audit focus and Deloitte also provided detailed reporting on these matters to the Committee. There was continued evidence of an improvement in the performance of general liability claims in the UK during the year and the Committee considered in detail the resulting favourable development of prior years' reserves recommended by management, taking into account the Group Reserving Actuary's assessment of the sufficiency of these reserves. The Committee challenged management on whether the proposed releases were reasonable and that the reserves remained appropriately prudent. The Committee continues to maintain a focus on the longer-term reserves relating to asbestos and PSA claims and reviewed actual claims experience against expectations throughout the year. The Committee noted and supported management's decision to hold an additional margin in respect of future PSA claims as the IICSA investigations develop. Following all of our reviews and discussions, the Committee's opinion was that the reserving process and outcomes were robust and well managed and that the overall reserves set were reasonable as disclosed in notes 9 and 28 of the financial statements.
Life insurance reserves The calculation of the Group's life insurance reserves requires management to make significant judgements about bond yields, discount rates, credit risk, mortality rates and current expectations of future expense levels.	The Committee considered a report from the Chief Actuary of Ecclesiastical Life Limited ('ELL') which set out recommendations for the basis and methodology to apply for: • the valuation of policy liabilities for inclusion in the report and accounts for ELL at 31 December 2018, and • the calculation of technical provisions in accordance with Solvency II regulations at 31 December 2018. The Committee noted that no material changes in methodology were proposed, for either the accounts or Solvency II reporting basis, from those used for the valuations at 31 December 2017. The Committee reviewed the work done by the Chief Actuary to assess whether the methodology remained appropriate, with a particular focus on mortality assumptions, interest and inflation rate assumptions. The assumptions used for valuing future expense cash-flows were considered, including a reduction in future costs following the removal of the Solvency II audit requirement. Following its review, and after consideration of Deloitte's report, the Committee was satisfied that the assumptions proposed were appropriate and overall the judgements made in respect of the reserves were reasonable. The assumptions are disclosed in note 28(b) of the financial statements.

Matter considered	Action
Carrying value of goodwill This is an area of focus for the Committee given the materiality of the Group's goodwill balances (£23m as at 31 December 2018) and the inherent subjectivity in impairment testing. The judgements in relation to goodwill impairment continue to relate primarily to the assumptions underlying the calculation of the value in use of the business, being the achievability of the business plans and the macroeconomic and related modelling assumptions underlying the valuation process.	The Committee received detailed reporting from management and challenged the appropriateness of the assumptions made, including: • the consistent application of management's methodology; • the achievability of the business plans; • assumptions in relation to long-term growth in the businesses at the end of the plan period; and • discount rates. The Committee noted that Deloitte reduced the audit risk from significant to higher for this matter in 2018, but it remains an area of audit focus. The Committee paid particular attention to management's proposals to define the associated Cash Generating Units (CGUs) at a more granular level, and to reduce the discount rate used in the calculation. Detailed support for these assumptions was provided by management. The Committee considered the proposal and provided robust challenge to the assumptions, notably the evidence to support the reduction in the discount rate from the prior year. After its reviews, the Committee concluded that the assumptions were reasonable and that no impairment was required for any of the businesses under review. Goodwill is disclosed in note 17 of the financial statements.
Valuation of defined benefit pension scheme liability Although the Group's defined benefit scheme is in surplus, the liabilities of the scheme are material in comparison to the Group's net assets and the valuation requires many actuarial assumptions, including judgements in relation to long-term interest rates, inflation, longevity and investment returns. Judgement is applied in determining the extent to which a surplus in the Group's defined benefit scheme can be recognised as an asset.	During 2018, the Committee received reports from management on the proposed approach to the valuation of the pension scheme. As the pension scheme is sensitive to changes in key assumptions, management completed an assessment as to the appropriateness of the assumptions used, taking advice from independent actuarial experts and including where appropriate, benchmark data, and reported its findings to the Committee. Following this review, management concluded that in addition to updating assumptions to reflect economic market conditions at 31 December 2018, the salary inflation assumption be reduced based on historical salary increases. Following consideration, the Committee concluded that the assumptions proposed were appropriate and in line with normal market practice. During 2018, management kept the Committee appraised of developments in the High Court ruling relating to Guaranteed Minimum Pensions (GMP) equalisation of the Lloyds Bank PLC pension scheme. This ruling has implications for the EIO section of the Group's defined benefit scheme which was previously contracted out. Management, in conjunction with independent actuarial experts, estimated the impact of the ruling on the scheme liabilities at 31 December 2018. Having reviewed the timing of the ruling and noting the independence of the actuary's valuation, the considered opinion of the Committee concluded that it was appropriate to recognise this cost in 2018 at the value proposed. Management reported its approach to determining the amount of surplus recognisable in the scheme at the year-end date, taking into account the impact of the announcement to close the scheme to future accrual from 30 June 2019 and the independent legal opinion that the EIO Section does not have an unconditional right to a refund of surplus. The Committee considered the legal advice and the calculation of the asset ceiling and, after careful consideration of the requirements of International Financial Reporting Interpretations Committee 14 (IFRIC 14), the Committee concluded that recognition of the full surplus in the Group's main defined benefit scheme was appropriate. The impact of updating assumptions to reflect those in force at the balance sheet date on the valuation at 31 December 2018 are explained in note 19 to the financial statements on page 208.

Fair, balanced and understandable

The Board requested that the Committee confirm whether the annual report and accounts taken as a whole were fair, balanced and understandable and whether it provided the necessary information for shareholders and other stakeholders to assess the Group's performance, business model and strategy. The Committee recommended that the Board make this statement on page 100.

In making this recommendation, the Committee reviewed and provided feedback on early drafts of the Annual Report highlighting any areas where we believed further clarity was required in the final version. When forming its opinion, the Committee reflected on information it had received and its discussions throughout the year as well as our own knowledge of the business and its performance.

Oversight of the Group's systems of internal control including the internal audit function

Assessment of internal controls

The Group's approach to internal control and risk management is set out in the Corporate Governance Report on page 102.

In reviewing the effectiveness of the system of internal control and risk management during 2018, the Committee has:

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

Internal control over financial reporting

Internal control over financial reporting is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of management and financial reporting in accordance with generally accepted accounting principles.

Controls over financial reporting policies and procedures include controls to ensure that:

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

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

Group Internal Audit (GIA)

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

outsourced internal audit arrangements in Australia and Canada.

The Committee has oversight responsibility for GIA and is satisfied that GIA has the appropriate resources. The position of Director of GIA became vacant during the year, the committee considered options for filling the vacancy and resolved to appoint Dan O'Loughlin as Acting Group Chief Internal Auditor in the interim. The Director of GIA is accountable to the Committee Chairman, reports administratively to the Group Chief Executive and has access to the Chairman of the Board.

GIA's annual programme of work is risk based and designed to cover areas of higher risk or specific focus across the Group. The plan is approved annually in advance by the Committee and is regularly reviewed throughout the year to ensure that it continues to reflect areas of higher priority. Where necessary, changes to the agreed plan are identified as a consequence of the Group's changing risk profile. All proposed changes to the agreed internal audit plan are reviewed, challenged and approved by the Group Audit Committee during the year. Throughout the year, GIA submitted quarterly reports to the Committee summarising findings from audit activity undertaken and the responses and action plans agreed with management. During the year, the Committee monitored progress of the most significant management action plans to ensure that these were completed in a timely manner and to a satisfactory standard.

In accordance with the International Professional Practice Framework for Internal Audit an independent and objective external assessment of the internal audit function was undertaken in 2018. The function was assessed to be compliant with the Standards and Financial Services Code.

Whistleblowing

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

During the year, the Group's approach to whistleblowing was refreshed and set out in a new Standard and Guidance

Document (which is available internally on the Group's intranet). The Chairman of the Group Audit Committee is designated the Group's 'Whistleblowing Champion' having responsibility to ensure the independence, autonomy and effectiveness of the Group's policies and procedures on whistleblowing including the procedures for protection of staff that raise concerns from detrimental treatment. On behalf of the Whistleblowing Champion, the Director of GIA is responsible for ensuring the effectiveness of internal whistleblowing arrangements, including arrangements for protecting whistleblowers against detrimental treatment. For 2019, we intend to commission an independent and objective assessment of the whistleblowing policy and the underlying process.

Legal and regulatory developments

The Committee receives regular reports and considers the impact of legal and regulatory developments on the UK Group to control legal and regulatory risk. It monitors the application and impact of any actions required by the business or organisation through to completion. Reports are shared with relevant business areas, and with relevant subsidiary Boards and Board Committees.

AQR inspection of external audit

The FRC's Audit Quality Review (AQR) team selected the audit of the 2017 Ecclesiastical Insurance Office plc Group financial statements to review as part of their annual inspection of audit firms. The review focused on identifying areas where improvements are required, rather than highlighting areas performed to or above the expected level. The Chairman of the Group Audit Committee held discussions with the AQR team as part of the process. The review is in its final stages, and the AQR team has confirmed no significant areas for improvement have been identified. The Group Audit Committee is satisfied that the review did not identify any matters which might have a bearing on the audit appointment.

By order of the Board.

Andrew McIntyre

Chairman of the Group Audit Committee
19 March 2019

Group Remuneration Report



Group Remuneration Committee Chairman’s statement

This is my first Report as Chairman of the Group Remuneration Committee, and I am pleased to introduce the Group Remuneration Report for 2018 and to highlight some of the key aspects of the Committee’s work during the year. This year the Very Reverend Christine Wilson and Chris Moulder joined the Committee and Denise Wilson, who chaired the Committee since February 2013, stepped down from the Committee in March 2018.

About this report

As has been the case in previous years, while our Group structure does not require us to comply with the regulations governing the disclosure of executive remuneration to which quoted companies are subject, we have chosen to largely adopt these reporting requirements in order to provide greater transparency and follow best practice. This introductory statement summarises: the business context for the executive remuneration in 2018; major decisions taken by the Committee during the year; and changes made to directors’ remuneration. The Directors’ Remuneration Policy on page 128 sets out the Group’s policy in relation to the structure and elements of pay for our directors. The Annual Report on Remuneration on page 140 describes how the Group’s remuneration policies have been implemented in 2018, providing retrospective disclosures on directors’ remuneration for 2018 and setting out how the Policy will be implemented in 2019.

Review of performance and incentive outcomes

As described in the Strategic Report starting on page 15, the Group has delivered a fifth year of sound financial performance. Underlying performance remained robust, with underwriting profit of £29.2m (2017: £27.1m) and GWP growth across all our territories. Pre-tax profits of £15.4m (2018: £82.2m) were lower than in recent years, reflecting the effect of short-term stock market fluctuations on the Group’s investment portfolio.

Given the Group’s performance over the year, the Committee is satisfied that (i) the annual bonus awards of 84% (Group Chief Executive) and 82% (Deputy Group Chief Executive) of the maximum potential value and (ii) the 88% vesting of the long-term incentive plan (LTIP) granted in 2016, are reflective of performance and appropriate.

To ensure that the financial results achieved over the one-year and three-year periods applicable to the executive directors’ annual bonus and LTIP outcomes have been achieved within the risk appetite limits set for the Group, the Committee considers risk management across the Group as part of its deliberations on remuneration. The Committee is advised by the Group Chief Risk Officer (CRO) in relation to the risk impact of incentive scheme design, targets, and whether the outturns have been achieved within the Group’s risk appetite. I am pleased to report that following this review for the period ending 31 December 2018, the Committee did not consider the application of discretion necessary in respect of the 2018 annual bonus or the 2016-2018 LTIP.

Key Committee activities during the year

During the year, the Committee undertook a review of the Group’s Remuneration Policy and determined that it remains effective and continues to drive the sustained and long-term performance of the Group. The Committee determined that the remuneration packages of the two executive directors were appropriately aligned with the Group’s strategic objectives, reflective of the experience and track record of the executive directors and comparative benchmarking.

The Group Chief Financial Officer resigned and left the board on 31 August 2018. As a result of his resignation the Group Chief Financial Officer was not entitled to receive a bonus in respect of 2018 and outstanding LTIP awards lapsed on his departure, in line with company policy.

The Committee reviewed the remuneration packages of six Material Risk Takers (MRTs) over the year, taking account of all relevant factors. The Committee continued to oversee the development of remuneration policy and incentive scheme design across the wider Group, further aligning reward policies across all Group entities with the Group’s strategic objectives and financial targets. In particular, revised incentive arrangements were reviewed and approved for EdenTree Investment Management.

During 2018 the Group published its gender pay gap, underlining the Group’s commitment to diversity and gender balance at every level in the business and ensuring that all employees, both men and women, have a fair and equal pay opportunity. The Group’s gender pay gap is largely driven by the higher proportion of men in senior roles, and the higher proportion of women in more junior roles. We are pleased to see that the actions we are taking have resulted in a higher proportion of women filling roles in the highest pay quartile in 2018 compared with 2017. This has contributed to our median gender pay gap reducing to 23.5% from 25.0% over the same period. The Group is pursuing a range of initiatives, as part of its commitment to the Women in Finance Charter, to encourage greater gender balance at all levels, including enabling the appointment of more women to senior roles in the Group.

Finally, I value the continued support from our charitable owner and shareholder Allchurches Trust Limited, and remain mindful of our responsibilities to drive sustained and improved performance over the long term through our remuneration strategy, policy and principles.

David Henderson
Chairman of the Group Remuneration Committee
19 March 2019

Committee member	Member since	Meetings eligible to attend	Meetings attended
Denise Wilson ¹ (Chair until March 2018)	December 2011	2	2
David Henderson ² (Chair from April 2018)	September 2016	4	4
Caroline Taylor	November 2014	4	3
The Very Reverend Christine Wilson ³	February 2018	3	2
Chris Moulder ⁴	June 2018	1	1

¹ Denise Wilson relinquished the chairmanship and membership of the Committee with effect from 14 March 2018.
² David Henderson was appointed Chairman of the Committee on 23 April 2018.
³ The Very Reverend Christine Wilson was appointed to the Committee on 6 February 2018. Dean Wilson did not attend one meeting due to a prior commitment as the meeting dates were set before she joined the Committee. Dean Wilson had previously been a member of the Committee from April 2013 to September 2016.
⁴ Chris Moulder was appointed to the Committee on 14 June 2018.

Group Remuneration Committee

Purpose and membership
The Committee is responsible for recommending to the Board the Remuneration Policy for Executive Directors and for setting the remuneration packages for each executive director, members of the Group Management Board (GMB), Material Risk Takers and heads of strategic business units. None of the executive directors were involved in discussions relating to their own remuneration. The Committee also has overarching responsibility for the Group-wide Remuneration Policy.

During 2018, the Committee held four meetings in total. The Group Remuneration Committee members and their attendance at meetings during the year are set out in the table above. All members are independent NEDs and have the necessary experience and expertise to meet the Committee’s responsibilities.

Advisers to the Committee
During the year, the Committee received external advice from Aon in relation to the review of the Group’s Remuneration Policy; the determination of appropriate remuneration packages for executive directors, members of the GMB and heads of strategic business units and remuneration market trends and regulation. Aon also act in the capacity of Actuary to EIO Trustees Ltd in respect of the Group’s defined benefit pension scheme. The Committee also had access to benchmarking reports from Willis Towers Watson and McLagan, each of which also provides data to support the determination of pay and conditions throughout the Group.

Fees paid to Aon during 2018 for professional advice to the Committee were £54,808 (2017: £68,000). The Committee is satisfied that the advice received during 2018 from Aon was impartial, as Aon is a signatory to the voluntary code of conduct of the Remuneration Consultants Group.

Where appropriate, the Committee received input from the Chairman, Chairman Group Risk Committee, Group Chief Executive, Group HR Director, Director of Group Finance, CRO and Group Reward Manager. Such input, however, never relates to their own remuneration.

Directors' Remuneration Policy

The Directors' Remuneration Policy (the 'Policy') described in this part of the report is intended to apply for the year from January to December 2019. The Policy is aligned to delivery of the Group's strategic objectives and establishes a set of principles which underpin the Group's reward structures for all Group employees:

- Reward structures will promote the delivery of **long-term sustainable returns**. As such, the performance measures in the annual bonus and LTIP will reflect and support the Group's underlying strategic goals and risk appetite and are comprised of both financial and non-financial targets.
- Reward payments will be performance-related, **reflecting individual and business performance**, including both what has been delivered and the way in which such deliveries have been achieved. However, the Group will adopt a prudent and considered approach when determining what portion of an employee's package should be performance-linked and/or variable so as to ensure that irresponsible conduct and behaviours are neither encouraged nor rewarded and that customer experience is not prejudiced in any way by the operation of its pay arrangements.
- Reward structures will be **straightforward and simple** for everyone to understand.
- Remuneration packages will be **set by reference to levels for comparable roles** in comparable organisations. However, benchmark data will be only one of a number of factors that will determine remuneration packages.
- Reward structures will deliver an **appropriate balance of fixed to variable pay** in order to foster a performance culture, with the proportion of 'at risk' pay typically

increasing with seniority. However, high levels of leverage are not appropriate for the Group.

- Reward structures will achieve a **balance between short and long-term incentives**, supporting the overall aim of the Group's Remuneration Policy of promoting the long-term success of the Group. The balance between short- and long-term incentive pay is largely driven by role and seniority, with generally a greater contribution to reward provided by long-term incentives for more senior employees.
- Ecclesiastical is committed to ensuring that all employees, both men and women, have a **fair and equal pay opportunity**.
- The Group will strive to adhere to the highest standards of remuneration related regulatory compliance and **best practice guidelines**, while ensuring that the Group's remuneration policies are appropriately tailored to its circumstances, challenges and strategic goals.

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

Balancing short- and long-term remuneration

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

‘The Directors’
Remuneration Policy is
aligned to delivery of
the Group’s strategic
objectives and establishes
a set of principles which
underpin the Group’s
reward structures for all
Group employees.’

Future policy table (executive directors)

The following table provides a summary of the key components of the remuneration package for the executive directors.

How the element supports the Group's strategic objectives	Operation of the element	Maximum potential value and payment at threshold	Performance measures used, weighting and time period applicable	Change from 2018
Salary To provide a core reward at the level needed to attract and retain the required level of talent.	Salaries are paid in 12 equal monthly instalments during the year. Salaries are reviewed annually with changes taking effect from 1 April each year.	When the annual review is conducted various factors are taken into account, including Group and individual performance, relevant market information and levels of pay increases in the wider UK or relevant territory population.	Group and individual performance	None
Benefits To provide a market-competitive reward package and promote the wellbeing of employees.	Benefits normally comprise a car allowance, a private healthcare scheme, income protection and medical assessments. Executive directors also receive life assurance cover on the same basis as the wider employee population and in the case of the Deputy Group Chief Executive, health and dental cover and accidental death and dismemberment cover on the same basis as the wider employee population in the Group's Canadian branch.	Benefits are set at a level taking into account benefit packages offered by comparable organisations for comparable roles; benefits offered to the wider employee population and with the overall objective of promoting the wellbeing of employees. The costs are those relating to providing the benefit.	Not applicable	None
Pension To aid retention and provide a market competitive provision for post-retirement income.	UK Defined Contribution Scheme: UK-based executive directors are eligible to participate in the Group Personal Pension plan. Contributions are made by the employee and employer. Canadian EIO plc Defined Contribution Pension plan: the Canadian Defined Contribution plan is applicable to Ecclesiastical's Canadian staff. The Deputy Group Chief Executive participates under this plan and does not participate in the UK Defined Contribution Scheme. Contributions are made by the employer.	The level of pension contribution is set at a level taking into account pension benefits offered by comparable organisations for comparable roles and benefits offered to the wider employee population. The employer contribution rate to the UK Defined Contribution Scheme for new Executive Directors is 12% of basic salary. The employer contribution rate to the Canadian EIO plc Defined Contribution Pension plan is 12% of basic salary.	Not applicable	Employer contribution rate to the UK Defined Contribution Scheme for new Executive Directors reduced to 12% (from 15%).
Group annual bonus scheme To incentivise the executive directors to achieve key financial and strategic goals and targets for the financial year. Deferral provides further alignment with shareholders' interests and promotes retention.	This cash bonus is paid annually, normally three months after the end of the financial year to which it relates. Targets are set annually and award levels are determined by the Committee based on performance against these targets. Any bonus earned in excess of 75% of an individual's maximum bonus opportunity is deferred over a period of three years.	Maximum opportunity of 100% of salary of which 50% is payable for a target level of performance.	The Group annual bonus is subject to a range of challenging metrics linked to key strategic priorities. For 2019, these are: • Ecclesiastical Insurance Group (EIG) PBT (including fair value investment gains/losses) • Group COR • Strategic targets • Customer and conduct targets • Personal performance targets	Customer and conduct threshold increased to 85%.

Future policy table (executive directors) continued

How the element supports the Group's strategic objectives	Operation of the element	Maximum potential value and payment at threshold	Performance measures used, weighting and time period applicable	Change from 2018
Group LTIP				
To focus the executives and incentivise the achievement of the Group's long-term objectives; to align the executive directors' interests with those of shareholders and to promote attraction and retention of talented individuals.	Cash awards under the Group LTIP vest dependent on the Committee's assessment of performance against the performance conditions over the relevant three-year period. Targets are set annually for each successive three-year LTIP period.	Under the rules of the LTIP, awards can be made of up to 150% of salary in the case of the Group Chief Executive and of up to 100% of salary in the case of the Deputy Group Chief Executive. At on-target performance, a target opportunity of 50% of the award applies. Threshold business performance results in vesting of no more than 20% of the award. The Group LTIP plans granted in respect of 2017-2019 and 2018-2020 will continue to vest under the previously applicable policy.	The Group LTIP is subject to a range of challenging conditions linked to key strategic priorities. For 2019 awards relating to the performance period 2019-2021, the following performance conditions will apply: • Group EIG PBT (excluding fair value investment gains/losses) • Group EIG PBT (including fair value investment gains/losses) • Group COR • Strategic targets and • Customer and conduct targets. There is a 36-month performance period from the date of grant.	Customer and conduct threshold increased to 85%.
Notes to the policy table				
Performance measures and targets	Remuneration Committee discretion, malus and clawback provisions	Changes to the Policy from that operating in 2018	Remuneration arrangements elsewhere in the Group	
The Committee selected the performance conditions used for annual bonus and long-term incentives because they are central to the Group's overall strategy and are key metrics used in measuring the performance of the Group. The performance conditions are reviewed and set annually by the Committee, following consultation with the CRO including on the extent to which the schemes operate within the Group's risk appetite. The Committee is of the opinion that the performance targets are commercially sensitive to the Group and that disclosure at the beginning of the financial year may be detrimental to its interests. The Committee will keep this under review, meanwhile targets will be disclosed at the end of the relevant financial year in that year's Remuneration Report provided they are not considered commercially sensitive at that time.	The Committee has discretion to reduce any annual bonus and LTIP prior to award in certain circumstances, including (but not limited to): (i) issues regarding the Group's underlying financial strength and position; (ii) an actual or potential regulatory censure; (iii) if the Group is in material breach of its risk policies (including conduct risk) and/or its values/ethics; and (iv) a material diminution in the regard by which the Group is held by its customer base as a result of executive mismanagement. Bonus already paid or deferred, LTIP already vested and any unvested LTIP are subject to malus/clawback in certain circumstances, including (but not limited to): (i) misstatement of performance; (ii) regulatory censure, material reputational damage and/or material non-adherence to the Group's risk tolerances; and (iii) misconduct. A three year time limit applies in respect of clawback from the date of bonus payment and LTIP vesting.	Due to the Group's ownership structure, in particular that its ultimate parent company is a charity, it is not possible to deliver variable remuneration in the form of shares. Cash awards under the Group Annual Bonus and Group LTIP arrangements are not subject to a post vesting holding period. The employer contribution rate to the UK Defined Contribution pension scheme will reduce for new Executive Directors to 12% of basic salary (from 15%), bringing contribution rates in line with pension benefits offered to the wider employee population. The threshold target for customer and conduct within the Group annual bonus scheme and Group LTIP will be increased from 80% to 85%.	the common set of principles set out in the Group's Remuneration Policy on page 135. However, given the size of the Group and the range of its operations, the manner in which these principles are implemented varies with seniority and, where appropriate, with the nature of the business transacted by a Group entity and the individual regulatory requirements applying thereto. All employees of the Group are entitled to a salary, benefits, pension and annual bonus. However, remuneration for executive directors is more heavily weighted towards variable rewards, through a higher annual bonus opportunity and participation in the Group LTIP. Such variable remuneration is conditional on the achievement of performance targets that are linked to the successful delivery of the Group Strategy. The greater weighting towards variable remuneration thereby aligns the interests of executive directors with those of shareholders.	

Remuneration scenario charts

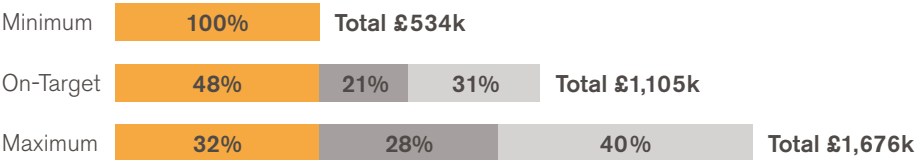
The remuneration scenario charts below illustrate what each executive director could earn in respect of the policy for 2019, under different performance scenarios:

- Minimum: fixed pay only (being basic salary, pension or cash in lieu of pension and benefits) with no annual bonus and no vesting of the LTIP;
- On target: fixed pay (being basic salary, pension or cash in lieu of pension and benefits) with annual bonus of 50% of basic salary and 50% vesting of the LTIP;
- Maximum: fixed pay (being basic salary, pension or cash in lieu of pension and benefits) with maximum bonus of 100% of basic salary and 100% vesting of the LTIP.

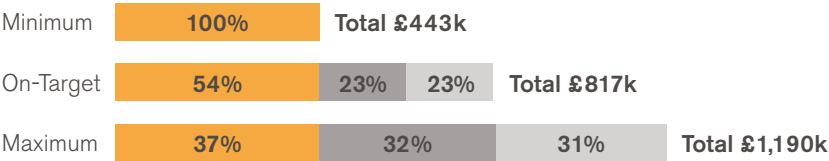
Notes to the charts:

- Fixed pay is base salary for 2019 plus the value of pension and benefits.
- Base salary is the aggregate of the salary applicable at 1 January 2019 for January to March 2019 and the salary applicable at 1 April 2019 for April to December 2019.
- The value of pension is calculated as described in the Future Policy table.
- The value of benefits in-kind is taken from the single figure table for 2018, which can be found on page 141.
- The Group operates a cash LTIP scheme for the reasons set out above. No share price appreciation has therefore been included in the remuneration scenario charts.

Mark Hews: Effect of the application of this policy in financial year 2019



S. Jacinta Whyte: Effect of the application of this policy in financial year 2019



Fixed Pay Annual Variable LTIP

Approach to recruitment remuneration

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

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

Where it is thought necessary to compensate for an individual's awards resulting from previous employment, the Committee may, as far as practicable, seek to match the expected value of such awards through the use of the Group's existing incentive arrangements. Where this is not possible, it may be necessary to offer some form of

'buy-out' award, the size of which will, in the normal course of events, reflect the commercial value of the award foregone (and the vesting timetable of the awards foregone) and will also (where possible) be subject to some form of clawback if the individual leaves Ecclesiastical within a set timeframe.

Any new executive director's package would include the same elements and generally be subject to the same constraints as existing executive directors.

Element of remuneration	Maximum percentage of salary
Salary	-
Annual bonus	100%
LTIP	150% – Group Chief Executive 100% – Deputy Group Chief Executive
Pension contribution/allowance	12% UK Defined Contribution Scheme 12% Canadian EIO plc Defined Contribution Pension Plan

Service contracts and policy on payment for loss of office

Standard provision	Policy	Details
Notice periods in executive directors' service contracts	Twelve months by the Group or executive director for the Group Chief Executive and six months by the Group or executive director for the Deputy Group Chief Executive.	Executive directors may be required to work through their notice period, or may be paid in lieu of notice if they are not required to work the full notice period.
Payment in lieu of notice	The Group may decide if it wishes to make a payment in lieu of notice of an amount prescribed under the contract, comprising of salary (and in the case of the Group Chief Executive, benefits) for the balance of the notice period, excluding bonus and accrued holiday entitlement.	Payable as a lump sum within 14 days of termination date but, in the case of the Deputy Group Chief Executive, with the option to be paid in monthly instalments over the balance of the notice period.
Severance payment for Deputy Group Chief Executive	The Deputy Group Chief Executive's pre-existing contract of employment before her appointment as Deputy Group Chief Executive contained severance provisions in line with Canadian law and practice. The policy of the Group has been to honour these commitments insofar as they relate to accrued service up to the date of her appointment to her new role, but not in respect of service after that date.	The executive's entitlement arises in the case of any termination by the Group for 'No Cause' as defined and represents the sum of £503k and the provision of dental and health insurance cover and life assurance cover for a period of 21 months after the termination date of her employment. The sums due may be made in monthly instalments to allow for mitigation. In addition, any sums otherwise due under the rules of any bonus or cash incentive plan in respect of the bonus year in which the termination date falls or in any subsequent year are only payable to the extent that they would otherwise exceed £148k.

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

Standard provision	Policy	Details
Mitigation	The executive directors' service contracts do not expressly provide for mitigation on termination except in the case of the Deputy Group Chief Executive's contract which allows for payment in instalments over the balance of the notice period.	The Committee will take account of the circumstances of the termination and the director's performance during the period of qualifying service to determine whether the exercise of any discretion is appropriate.
Treatment of annual bonus on termination or change of control under plan rules	No payment is to be made unless the executive is employed on the date of bonus payment except for 'good leavers' as defined in the plan rules (e.g. death, ill health, redundancy, retirement) and other circumstances at the Committee's discretion. If there is a change of control event, then an early payment can be calculated and made.	Good leavers are entitled to a bonus payment subject to the achievement of bonus criteria which is pro-rated down to reflect their service during the performance year unless the Committee determines that a higher amount is justified. A similar provision would apply if there were a change of control event. Bonus payments for good leavers are subject to deferral, malus and clawback.
Treatment of long-term incentive awards on termination or change of control under plan rules	All awards lapse except for 'good leavers' as defined in the plan rules (e.g. death, ill health, redundancy, retirement) and other reasons at the discretion of the Committee. If there is a change of control event, then an early payment can be made at the discretion of the Committee.	For good leavers, vesting is determined based on the application of the performance conditions and any award is then pro-rated down based on the proportion of the 36-month performance period that the employee has served since the grant date unless the Committee determines that a higher amount is justified. A similar provision would apply if there were a change of control event. For good leavers grants vest on the original anniversary date.

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

Standard provision	Policy	Details
Exercise of discretion	Discretion is intended to be relied upon only in certain circumstances as set out on page 132.	The Committee's determination will take into account the circumstances of the executive director's departure and the recent performance of the Group when using discretion in relation to short- or long-term bonus payments.
Other matters	The Group's policy is to honour commitments made under contractual arrangements that may have been entered into with an employee prior to them becoming a director. There are no other provisions for termination payments or payments for loss of office in standard directors' service contracts.	
Non-Executive Directors	Each NED is appointed for an initial three year term and is subject to election by the shareholder at the first AGM following their appointment. In addition, the Board has agreed that all directors (including NEDs) will be subject to annual re-election by the shareholder at each AGM. NEDs are entitled to receive a pro-rata proportion of their fees that they have accrued up to the date of termination of their contract.	

NEDS' fees policy

How the element supports the Group strategic objectives	Operation of the element	Maximum potential value and payment at threshold	Performance measures used, weighting and time period applicable
To attract NEDs who have a range of experience and skills to oversee the implementation of the Group's Strategy.	NEDs' fees, including the Committee Chairman's fees, are approved by the Board and at a general meeting, following recommendation by the Chairman and executive directors. NEDs take no part in the discussion relating to their own fees. The Chairman's fees are considered and approved by the Board in the absence of the Chairman. Fees are paid in 12 equal monthly instalments during the year. Fees are reviewed every two years against those for NEDs in companies of a similar scale and complexity. NEDs are not eligible to receive benefits and do not participate in incentive or pension plans.	Current fee levels are shown in the section on implementation of policy.	NEDs are not eligible to participate in any performance-related arrangements.

Consideration of employment conditions elsewhere in the Group
When reviewing and setting the policy for executive directors' remuneration, the Committee takes into account the pay and employment conditions of employees elsewhere within the Group. In particular, the level of the pay review for UK Ecclesiastical employees is a key consideration in setting the level of any salary increase for executive directors.

The Committee is informed about the Group's approach on salary increases and benefits arrangements, including pensions and the distribution of remuneration outcomes throughout the wider organisation. When reviewing and setting the performance measures for executive directors' annual bonuses the Committee considers the extent to which these should be cascaded to other employees. The Committee has oversight of the incentive arrangements that are in operation for all Group entities and reviews the remuneration arrangements for designated senior management below the executive directors.

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

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

Annual Report on Remuneration*
This section of the Directors' Remuneration Report sets out how the above Remuneration Policy was implemented in 2018 and the resulting payments each executive director received. The financial information contained in this report has been audited where indicated.

Single total figure of remuneration for executive directors (audited)
The table on the following page shows a single total figure of remuneration received in respect of qualifying services for the 2018 financial year for each executive director, together with comparative figures for 2017. Aggregate executive directors' emoluments are shown on page 148. Details of NEDs' fees are set out in a separate table on page 147.

*The information in the previous part of the Directors' Remuneration Report is not subject to audit and is only subject to audit from this point onwards where stated in the section header.

Executive Director	Fixed pay (£000)				Variable pay (£000)				Pension (£000)		Total remuneration (£000)	
	Salary		Benefits ¹		Annual bonus ²		LTIP ³		Pension benefit ⁴		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Mark Hews	449	429	14	15	380	437	339	276	58	55	1,240	1,212
S. Jacinta Whyte ⁵	367	354	22	22	301	337	292	238	57 ⁶	54 ⁶	1,039	1,005
Ian Campbell ⁷	200	289	18	23	0	260	0	188	26	38	244	798
Total	1,016	1,072	54	60	681	1,034	631	702	141	147	2,523	3,015

¹ Benefits include items such as a car allowance and private medical insurance which are valued at their taxable value. They also include travel and accommodation benefits, valued at their grossed up tax and NI value. Provision of benefits during 2018 was in line with the previous year and the Directors' Remuneration Policy, and no exceptional benefits were paid.

² In line with the deferral policy, annual bonus earned in excess of 75% of the maximum bonus opportunity is deferred over a period of three years. In 2018 the value of executive directors' annual bonuses that were deferred is: £41k (Group Chief Executive) and £24k (Deputy Group Chief Executive).

³ LTIP represents the amount payable in respect of the three-year LTIP performance period 2016-2018 for 2018 and 2015-2017 for 2017. The Group operates a cash LTIP scheme, therefore no part of the award was attributable to share price appreciation. All executive directors hold unvested LTIP awards in accordance with the rules of the LTIP plan.

⁴ The Group Chief Executive received a cash allowance in lieu of pension during 2017 and 2018, in line with company policy that a cash allowance of 15% of salary (net of NI contributions) can be paid to UK-based executive directors where continued company contributions would result in a breach of the HMRC annual and/or lifetime allowance.

⁵ An average 2018 exchange rate of 1.7264 Canadian dollars to 1 GBP has been used in respect of both 2018 and 2017.

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

⁷ Ian Campbell resigned from the Board on 31 August 2018.

Mark Hews is a NED for MAPFRE RE and was appointed to their Board in December 2013. The fee of £30k (2017: £31k) that Mark Hews earns in respect of this role is paid directly to the Group by MAPFRE RE and is not received by Mark Hews.

Additional requirements in respect of the single total figure table

Annual bonus outcomes for 2018 (audited)

The annual bonuses payable to executive directors in respect of 2018 are assessed taking into account both Group and individual performance.

Individual performance is subject to delivery of personal performance objectives and performance in line with the Group's behavioural competency framework for strategic leaders. A personal performance percentage of between 0% and 75% may be awarded in respect of this element of the annual bonus. The personal performance percentage is reviewed and agreed by the Committee.

Group performance is subject to the four performance conditions which together form the Group performance multiplier. For 2018, these were Group COR (40%); Group EIG PBT (including fair value

investment gains and losses) (30%); delivery of Group strategic initiatives in line with the Group's strategic plan (15%); and Customer and Conduct performance (15%). Results in respect of each performance condition are assessed against the required performance levels set at threshold, target and maximum, in order to calculate the aggregate Group performance multiplier as shown in the second table below.

The overall bonus outturn for each executive director is the product of the personal performance percentage and the aggregate Group performance multiplier. The maximum opportunity under the annual bonus plan is 100% of salary.

The targets relating to the Group annual bonus for the financial year 2018 were:

Performance condition	Threshold (0.5x)	Target (1.0x)	Maximum (1.5x)	Weighting
Group COR	99.6%	94.6%	89.9%	40%
Group EIG PBT	£9.4m	£31.1m	£65.6m	30%
Strategic Targets	50%	75%	100%	15%
Customer and Conduct	80%	90%	100%	15%
The results relating to the Group annual bonus for the financial year 2018, and the resultant aggregate Group performance multiplier, are shown below.				
Performance condition	Result	Multiplier	Weighting	Weighted multiplier
Group COR	86.4%	1.5	40%	0.6
Group EIG PBT ¹	£16.4m	0.7	30%	0.2
Strategic Targets	91.8%	1.3	15%	0.2
Customer and Conduct	97.0%	1.4	15%	0.2
Aggregate Group performance multiplier				1.20

¹ Audited to EIO Group level

The Strategic Targets performance condition measures delivery of the Group's change programme. The agreed priorities for 2018 continued the strategic programme of change launched in 2016, in support of the Group's strategic goal to be the most trusted and ethical specialist financial services group, giving £100m to charity by the end of 2020. As set out in more detail in the Strategy in action report on pages 43 to 48, the Group has continued to deliver the key elements of its strategy whilst investing in its businesses, enabling it to sustain and build on the distinctive position it occupies in its markets. Considerable progress has been made on the second phase of the Group's change programme, resulting in an outturn of 91.8% being achieved against the strategic targets measure for 2018.

In line with the Group's commitment to delivering exceptional customer service and the highest standards of conduct, the Customer and Conduct performance condition measures delivery against the high standards set across a range of customer and conduct metrics and across all Group businesses. The Group delivered an outturn of 97.0% against the customer and conduct metrics for 2018 reflecting the Group's strong customer and conduct culture and effective systems of control. Targets in respect of customer satisfaction; claims service; complaints handling; data security; regulatory feedback; compliance with the Group's risk appetite and timely resolution of internal audit and compliance findings were met by all businesses. The Group's rolling programme of product reviews was achieved by the majority of businesses.

Bonuses are earned in respect of the financial year and are paid in March following the end of the financial year. Any proportion of a bonus outcome above 75% of the maximum bonus outcome is deferred over three years, in cash. All annual bonus outcomes are subject to malus and clawback as set out on page 132.

LTIP outcomes in 2018 (audited)

The LTIP amount included in the single total figure of remuneration is the cash award resulting from the Group LTIP grant in 2016 for the period 2016-2018. Vesting was dependent on performance over the three financial years ending on 31 December 2018 and continued service until March 2019.

The 2016-2018 Group LTIP is subject to the five performance conditions: Group COR (20%); Group EIG PBT (excluding fair value investment gains/losses) (20%); Group EIG PBT (including fair value investment gains/losses) (20%); delivery of Group strategic initiatives in line with the Group's strategic plan (20%); and Customer and Conduct performance (20%). Results in respect of each performance condition are assessed against the required performance levels set at threshold, target and maximum as shown below.

Performance condition	Threshold – 20% vesting	Target – 50% vesting	Maximum – 100% vesting	Actual	Vesting (% of maximum for performance condition)
Group COR	98.7%	93.7%	91.7%	87.6%	100%
Group PBT (excluding fair value investment gains/losses) ¹	£84m	£123m	£145m	£141m	91%
Group PBT (including fair value investment gains/losses) ¹	£79m	£136m	£165m	£163m	96%
Strategic Targets	50%	75%	100%	90.8%	82%
Customer and Conduct	80%	90%	100%	94.0%	70%
Total					87.8%

¹ Audited to EIO Group level

The Group LTIP outcome that vests in respect of each executive director in respect of 2016-2018 is shown below.

	LTIP grant	Total LTIP vesting	
	% of salary	£000	% of maximum
Mark Hews	100%	339	87.8%
S. Jacinta Whyte ¹	100%	292	87.8%
Ian Campbell ²	100%	0	0%

¹ An average 2018 exchange rate of 1.7264 Canadian dollars to 1 GBP has been used in respect of 2018.
² Ian Campbell resigned from the Board on 31 August 2018.

Scheme interests awarded during 2018 (audited)

During 2018, awards comprising of a cash sum were granted under the 2018-2020 Group LTIP to each executive director as set out below. These awards will vest, and the cash sum will be transferred to the award holder, in March 2021, to the extent that the applicable performance targets are met. The vesting date for these awards is the date on which the Group’s 2020 results are announced, anticipated to be during March 2021.

Executive director	Award date	Maximum cash sum subject to the award (% base salary)	Face value of award at grant £000s	Cash award if threshold performance achieved (% base salary)	End of the period over which the performance targets have to be fulfilled	Performance measures ³
2018-2020 Group LTIP						
Mark Hews	13 Jun 2018	150%	660	20%	31 December 2020	• Group COR 25% • Group EIG PBT (excluding fair value investment gains/losses) 25% • Group EIG PBT (including fair value investment gains/losses) 25% • Strategic targets 15% • Customers and conduct targets 10%
S. Jacinta Whyte ¹	13 Jun 2018	100%	359	20%	31 December 2020	
Ian Campbell ²	13 Jun 2018	100%	295	20%	31 December 2020	

¹ An average 2018 exchange rate of 1.7264 Canadian dollars to 1 GBP has been used.
² Ian Campbell resigned from the Board on 31 August 2018.
³ Vesting occurs on a straight line basis between pre-determined milestones set in relation to threshold, target and maximum performance. These will be disclosed on a retrospective basis in the Directors’ Remuneration Report for the year for which the Group LTIP awards vest.

Percentage change in remuneration of Group Chief Executive

The table below shows the percentage year-on-year change in salary, benefits and annual bonus (from 2017 to 2018) for the Group Chief Executive compared with UK-based employees¹. The Committee has selected this comparator group as being the most appropriate because the composition and structure of remuneration for this group most closely reflects that of the Group Chief Executive.

	Group Chief Executive % change	Average UK-based employees ¹ % change
Salary ²	4.7%	4.4%
Taxable benefits ³	0%	0%
Annual bonus	(13.2)%	(12.0)%

¹ UK-based employees of Ecclesiastical Insurance Office plc; excluding employees in SEIB; matched sample basis.
² The Group Chief Executive’s three-year incentive plan ceased at the end of 2016. The remuneration package, including the salary, for the Group Chief Executive was re-shaped for 2017 to reflect progress and to incentivise the Group’s longer-term strategic requirements. The adjustment made to the Group Chief Executive’s salary in April 2017 underlies the year-on-year percentage change in salary shown.
³ Based on contractual P11D taxable benefits for the tax year ending 5 April in the relevant year.

Relative importance of spend on pay

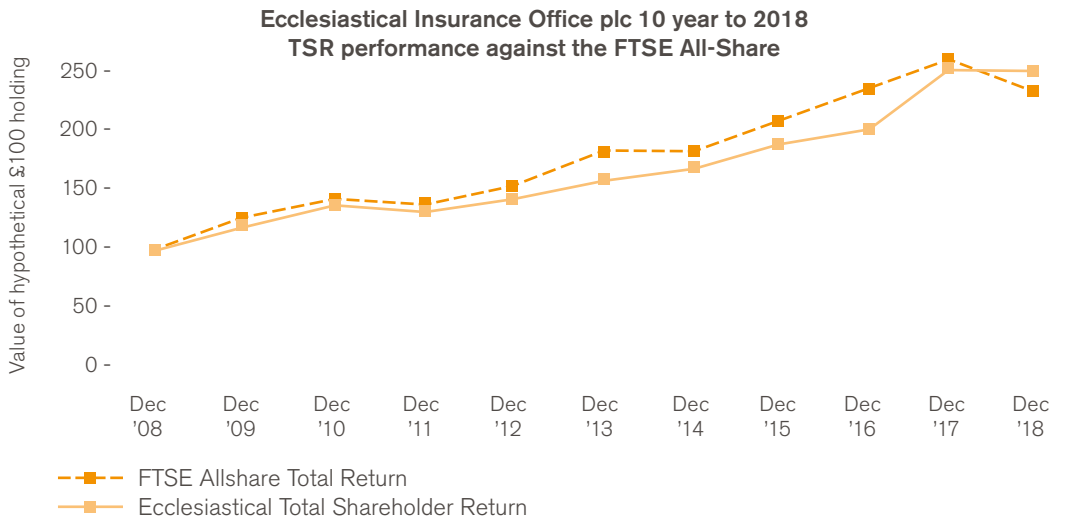
The table below sets out for 2018 and 2017, the actual costs of employee remuneration; grants paid to Allchurches Trust Limited; and dividends paid to Preference shareholders. PBT in each year is provided for context.

	2018	2017	% change
	£000	£000	
Remuneration paid to all Group employees	84,335	77,778	8% ¹
Gross charitable grants to the ultimate parent company, Allchurches Trust Limited	17,000	26,000	(35)%
Non-Cumulative Irredeemable Preference share dividend	9,181	9,181	Nil
PBT	15,371	82,196	(81)%

¹ The increase in staff remuneration costs in 2018 reflects the higher number of employees, salary inflation and a one-off contribution to pension costs following the announcement to close the defined benefit pension plan to future accrual on 30 June 2019. See note 13 to the financial statements on page 203.

Group Chief Executive pay for performance comparison

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



The table below shows the single figure of total remuneration for the incumbent, Mark Hews, and prior Group Chief Executive, Michael Tripp, for the ten years to 31 December 2018.

Financial year	Group Chief Executive ¹	Financial year ending 31 December									
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total remuneration (single figure) £000	Mark Hews	N/A	N/A	N/A	N/A	569	907	1,089	1,370	1,212	1,240
	Michael Tripp	516	430	416	390	330	162	N/A	N/A	N/A	N/A
Annual bonus received (% of maximum)	Mark Hews	N/A	N/A	N/A	N/A	45%	78%	88%	97%	99%	84%
	Michael Tripp ²	88%	23%	0%	0%	N/A	N/A	N/A	N/A	N/A	N/A
Long-term incentive vesting (% of maximum)	Mark Hews ³	N/A	N/A	N/A	N/A	4%	60%	70%	88%	75%	88%
	Michael Tripp ⁴	27%	27%	34%	0%	4%	47%	N/A	N/A	N/A	N/A

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

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

³ The LTIP vesting relevant to Mark Hews represents the amount vesting in respect of the three-year LTIP performance period 2012-2014 for 2014; 2013-2015 for 2015 and 2014-2016 for 2016, together with the amounts vesting in respect of the Group Chief Executive's three-year incentive plan in 2014, 2015 and 2016 respectively. The Group Chief Executive's three-year incentive plan concluded at the end of 2016. LTIP vesting in 2017 and 2018 represent the amounts vesting in respect of the three-year LTIP performance period 2015-2017 for 2017 and 2016-2018 for 2018.

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

Statement of directors' shareholdings and share interests

Directors' shareholdings and share interests are set out in the Directors' Report on page 96. Due to the Group's ownership structure, in particular that its ultimate parent company is a charity, it is not possible to deliver variable remuneration in the form of shares. Directors' shareholdings are not subject to post-employment shareholding requirements.

Directors' service agreements

Mark Hews has a service contract which provides for a notice period of 12 months by the Company. S. Jacinta Whyte has a service contract which provides for a notice period of six months by the Company. No NED has a service contract.

Payments for loss of office (audited)

No termination payments were made to executive directors in 2018. As noted elsewhere in the report, Ian Campbell resigned and left the board on 31 August 2018. As a result of his resignation he was not entitled to receive a bonus in respect of 2018 and outstanding LTIP awards lapsed on his departure. He worked his notice period to 31 August 2018 and no payments in lieu of notice were made, with the exception of a payment of £15,155 in respect of untaken holiday.

Non-Executive Directors	Fees (£000) 2018	Fees (£000) 2017
John Hylands ¹	133	110
The Very Revd Christine Wilson ²	-	-
Tim Carroll	63	58
David Henderson ³	68	65
Andrew McIntyre ⁴	65	44
Chris Moulder ⁵	60	13
Caroline Taylor	53	50
Edward Creasy ⁶	-	71
Anthony Latham ⁷	29	80
Denise Wilson ⁸	41	60
Total	510	552

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

² The Very Revd Christine Wilson was appointed as Senior Independent Director on 1 November 2017. No fee has been paid in 2018 to Christine Wilson as she waived her right to a fee. The Group chose to donate £65k to charity in 2018 (£27.5k in 2017).

³ David Henderson received an additional fee of £15k in 2017 and 2018 for services as a NED to EdenTree Investment Management Limited. David Henderson waived his additional fee as Chairman of the Group Remuneration Committee.

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

⁵ Chris Moulder was appointed as a NED on 27 September 2017 and became Chairman of the Group Risk Committee on 1 June 2018.

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

⁷ Anthony Latham retired from the Board on 14 June 2018. Mr Latham received an additional fee of £20k during 2017 for significant additional work as Chairman of the Group Risk Committee in relation to Solvency II and IMAP.

⁸ Denise Wilson resigned from the Board on 21 August 2018.

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

Single total figure of remuneration for NEDs (audited)
NEDs do not participate in any of the Group's incentive arrangements nor do they receive any benefits.

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

NED fees were last reviewed by the Board in November 2017 with increased fees becoming effective from 1 January 2018. The fees set out below are commensurate with the demands and responsibilities of the NED roles, are in line with those fees paid at similar-sized companies and will ensure that the Group will continue to be able to attract NEDs with the range of experience and skill levels required.

Total aggregate emoluments of directors

The total aggregate remuneration of the directors in respect of qualifying services during 2018 was £2,261k (2017: £2,718k). After inclusion of amounts receivable under long-term incentive schemes and pension benefits, the total aggregate emoluments of the directors was £3,033k (2017: £3,567k).

EdenTree

EdenTree has been subject to the FCA Remuneration Code since 1 January 2011. EdenTree operates a remuneration policy which is compliant with the Remuneration Code, details of which can be found in the EdenTree Pillar 3 statement on EdenTree’s website (www.edentreeim.com).

Statement of implementation of Remuneration Policy in 2019

The implementation of the remuneration policy will be consistent with that outlined in the Directors’ Remuneration Policy above. Details of how this policy will apply in 2019 are set out below.

Salary (executive directors)

Executive directors’ salaries are reviewed annually in line with the Directors’ Remuneration Policy. The following salaries will apply from 1 April 2019.

Name	Salary (£000)	Salary (£000)	Percentage increase
	1 April 2019	1 April 2018	
Mark Hews	463	452	2.5%
S. Jacinta Whyte ¹	378	369	2.5%

¹ An average 2018 exchange rate of 1.7264 Canadian dollars to 1 GBP has been used.

Annual bonus for 2019

The annual bonus performance conditions and targets have been set in accordance with the Directors’ Remuneration Policy above, on the same basis as 2018.

As in 2018, the annual bonuses payable to executive directors in respect of 2019 will be assessed based on both Group and individual performance. Individual performance is subject to delivery of personal performance objectives and performance in line with the Group’s behavioural competency framework for strategic leaders. Group performance is subject to the four performance conditions which together form the Group performance multiplier. For 2019, these will continue to be Group COR (40%); Group EIG PBT (including fair value investment gains and losses) (30%); delivery of Group strategic initiatives in line with the Group’s strategic plan (15%); and Customer and Conduct performance (15%). The overall bonus outturn for each executive director is the product of personal performance percentage and the aggregate Group performance multiplier. The maximum opportunity under the annual bonus plan in 2018 is unchanged at 100% of salary. Annual bonuses in respect of 2019 will be subject to deferral, over a period of three years, of any bonus earned in excess of 75% of an executive director’s maximum bonus opportunity.

LTIP for 2019-2021

The 2019-2021 LTIP performance conditions and targets have been set in accordance with the Directors’ Remuneration Policy above.

The 2019-2021 Group LTIP will be subject to the following performance conditions (which are unchanged from 2018): Group EIG PBT (excluding fair value investment gains and losses) (25%); Group EIG PBT (including fair value investment gains and losses) (25%); Group COR (25%); delivery of Group strategic initiatives in line with the Group’s strategic plan (15%); and Customer and Conduct performance (10%). Awards under the 2019-2021 Group LTIP will be up to 150% of salary in the case of the Group Chief Executive and up to 100% of salary in the case of the Deputy Group Chief Executive.

Fees (Non-Executive Directors)

The following fee structure will apply from 1 January 2019.

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

¹ The fee for chairing the Group Nominations Committee is included within the all-inclusive fee for the SID for 2019.

By order of the Board
David Henderson
Chairman of the Group Remuneration Committee
19 March 2019

Independent Auditor's Report

➞

Report on the audit of the financial statements

Opinion
In our opinion:

- the financial statements of Ecclesiastical Insurance Office plc (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the Consolidated Statement of Profit or Loss;
- the Consolidated and Parent Statement of Comprehensive Income;
- the Consolidated and Parent Statements of Changes in Equity;
- the Consolidated and Parent Statement of Financial Position;
- the Consolidated and Parent Statement of Cash Flows; and;
- the Notes to the Financial Statements 1 to 35 excluding the capital adequacy disclosures in Note 4.i calculated in accordance with the Solvency II regime which are marked as unaudited.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

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

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

Summary of our audit approach

Key audit matters	Materiality	Scoping	Significant changes in our approach
The key audit matters that we identified in the current year were: - general insurance reserves; - life insurance reserves; and - valuation of the defined benefit pension obligation and recognition of a net surplus. Within this report, any new key audit matters are identified with ⬆ and any key audit matters which are the same as the prior year identified with ➞.	The materiality that we used for the Group financial statements was £11.6m which was determined on the basis of 2% of total shareholders' equity.	As in the prior year, our Group audit included the audit of subsidiary entities in the United Kingdom and in Australia, as well as the Parent Company's overseas branches in Canada, Northern Ireland and the Republic of Ireland.	During 2018, we reassessed the key audit matter identified in the prior year in relation to the carrying value of goodwill arising on the Group's statement of financial position from the acquisition of South Essex Insurance Brokers Limited. As a result, we concluded that this was no longer considered a key audit matter in the current year and have consequently not included this in our auditor's report.



Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Key audit matters

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

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

During 2018, we reassessed the key audit matter identified in the prior year in relation to the carrying value of goodwill arising on the Group's statement of financial position from the acquisition of South Essex Insurance Brokers Limited. We concluded that management's impairment model was not materially sensitive to the various assumptions and inputs, either in isolation

or in aggregation, and considering the headroom in the goodwill impairment calculation these would need to move by an unreasonable amount or margin to materially impact on the carrying value. Therefore, this was no longer considered a key audit matter in the current year and consequently we have not included a key audit matter in respect of the carrying value of goodwill in our auditor's report.

General insurance reserves ⇄

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
The general insurance reserves remain the largest single area of judgement within the Group's financial statements. Gross provisions for outstanding claims and incurred but not reported ('IBNR') claims amount to £457m (2017: £509m), as set out in note 28 to the financial statements. The accounting policies and critical accounting estimates and judgements are set out in notes 1 and 2 respectively, with insurance risk being discussed in note 3. Due to the high level of judgements and estimates involved, we have identified this key audit matter as a fraud risk to our financial statement audit. We have pinpointed our key audit matter to certain assumptions used in the valuation models of UK liability IBNR reserves for physical and sexual abuse ('PSA') and asbestos claims, as referred to by the Group Audit Committee in their report on page 120. Management judgement and estimates, including in respect of actuarial assumptions, are required when setting these technical reserves. The value of these long-tailed technical reserves is sensitive to the movement in discount rates, which can be volatile as a result of uncertain market conditions. Future inflation, claims frequency and claims severity have a material impact on the valuation of these portfolios. In particular, claims frequency is difficult to predict for both PSA and asbestos cases.	We critically reviewed management's general insurance reserving papers as presented to the Group Audit Committee in February 2019. We challenged the key estimates within the calculation of the UK PSA and asbestos IBNR reserves by working with our general insurance actuarial specialists, to specifically assess the movements from prior year reserves, material changes in model, methodology and assumptions used as well as the impact of claims experience in the year. Key assumptions such as claims frequency, severity, inflation and discounting, as well as methodologies applied in projecting claim amounts, were challenged with the assistance of our general insurance specialists, taking into account market trends and claims development patterns. We also applied our wider industry knowledge, taking into account factors specific to the group's PSA and asbestos portfolios. Uncertainty and management margins applied to these classes of business individually, and in total, were challenged with the assistance of our general insurance specialists, considering current legal, market and industry developments, as well as consistency of application. Management implemented refinements to their UK PSA model in 2018. Our general insurance specialists critically assessed whether those refinements were reasonable, based on their experience and considering the specific circumstances of the group's exposure. We evaluated the design and implementation of key internal controls governing the actuarial assumption setting process. We have performed direct testing over the underlying claims and premiums data extracted from the policy administration system, as well as testing the design and implementation and operating effectiveness of relevant reconciliation controls over this data from input to output of the reserving modelling software We reconciled the output of the actuarial reserving process to the general ledger and the financial statements.	Overall we consider that the methodology applied and significant assumptions used by management in the 2018 general insurance IBNR reserving process are reasonable and consistent with the prior year.

Life insurance reserves ⇄

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
The life book comprises prepaid funeral plan business and continues to be closed to new business; however the group retains long term exposure in respect of funeral plan life insurance business written in the past. In arriving at the technical provision there are a number of key actuarial assumptions applied: • Valuation rate of interest used to discount the cash flows; • Mortality rates; and • Expense assumptions. Due to the inherently uncertain nature of these assumptions, they are subject to significant management estimates and, due to the size of the balance (2018: £81.9m, 2017: £88.1m) as set out in note 28 to the financial statements, could materially affect the financial statements if incorrectly or inconsistently determined or applied. The accounting policies and critical accounting estimates and judgements are set out in notes 1 and 2 respectively, with insurance risk being discussed in note 3. Due to the high level of judgement and estimates involved, we have identified this key audit matter as a fraud risk to our financial statement audit. The Group Audit Committee refers to this key audit matter in their report on page 120.	We critically reviewed management's life reserving papers as presented to the Group Audit Committee in February 2019. We challenged the key judgements within the calculation of the life insurance reserves by working with our life insurance actuarial experts, to specifically assess the movements from prior year reserves and material changes in methodology and assumptions applied. The key assumptions ('valuation rate of interest', mortality rates and expenses assumptions) were assessed for consistency and benchmarked by our experts using our wider industry knowledge and taking into account any factors specific to the group's funeral plan book. We also evaluated the design and implementation of relevant internal controls governing the actuarial models, assumption setting process and data flows. We performed direct testing of the completeness and accuracy of key underlying data used in the life reserving process, in particular policy holder data, fixed and variable expense data as well as data in relation to the assets backing the life insurance reserves. We reconciled the output of the actuarial reserving process to the general ledger and the financial statements.	Overall we are satisfied that the assumptions used in the 2018 valuation are reasonable and have been set consistently with prior year's models and methodologies.

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

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
The Group's Staff Retirement Benefit Fund ('SRBF') is a defined benefit pension scheme for which the valuation of the scheme obligations requires significant assumptions and judgements to be made. We identified the discount rate and inflation rate assumptions as our key areas of audit focus for the valuation of the pension scheme. At the end of 2018, the SRBF scheme is in a net surplus. The judgements involved in applying the asset ceiling (the limit on the amount that can be recognised as a net surplus) under IAS 19 and IFRIC 14 require significant management judgement in the interpretation of the scheme's Trust Deed and Rules. Therefore the recognition and valuation of the net surplus is a key audit matter. The Group recognises a net pension surplus of £16.1m (2017: net pension surplus of £20.0m) for the SRBF defined benefit pension scheme, as set out in note 19 to the financial statements. The accounting policies and critical accounting estimates and judgements are set out in notes 1 and 2 respectively. The valuation of the Group's defined benefit pension scheme obligation and recognition of the net surplus are discussed by the Group Audit Committee in their report on page 121.	We critically reviewed management's defined benefit pension valuation papers as presented to the Group Audit Committee in November 2018 and February 2019. We assessed the key assumptions used by the Group, working with our pension actuarial experts, against those adopted by other companies observed in the market at 31 December 2018 in order to determine whether they are within acceptable ranges. This benchmarking exercise included the discount rate and inflation rates applied by management in the valuation process. We tested the completeness and accuracy of key underlying data used by the Group's pension actuaries, including benefits and contributions paid in the year. We also evaluated the design and implementation of key internal controls governing the assumption setting process for the valuation of the Group's defined benefit scheme obligation. To test the recognition of the net surplus, we have reviewed relevant sections of the Trust Deed and Rules as well as legal advice obtained by management in 2018. We have engaged our pension actuarial experts to assess the recognised surplus against the asset ceiling resulting from IAS 19 and IFRIC 14.	Overall, we consider the net pension surplus to be appropriately valued. The discount rate and inflation rate assumptions used in the valuation of the defined benefit pension scheme obligation are within the acceptable ranges at 31 December 2018 and have been derived consistently with the prior year. The assumptions used as a whole, including non-key audit matters such as the rate for improvement in longevity, whilst individually and overall within acceptable ranges, lie towards the slightly prudent end of these ranges as at 31 December 2018. The net surplus is below the IAS 19 and IFRIC 14 asset ceiling at 31 December 2018 and therefore recognised appropriately.



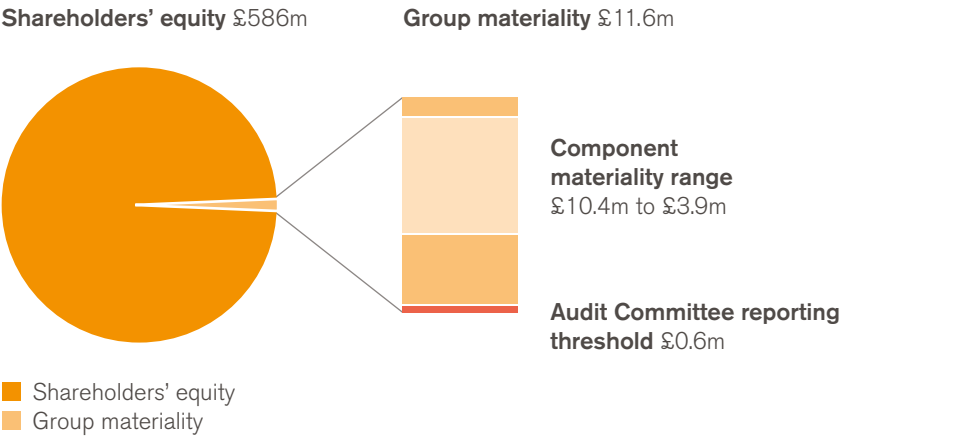
Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

	Group financial statements	Parent company financial statements
Materiality	£11.6m (2017: £5.7m)	£9.8m (2017: £5.0m)
Basis for determining materiality	2% of EIO Group total shareholders' equity (2017: 1% total shareholders' equity). 1% of EIO plc's total shareholders' equity	2% of EIO plc's total shareholders' equity (2017: 1% total shareholders' equity)
Rationale for the benchmark applied	We have used total shareholders' equity as a benchmark for our materiality to reflect the Group's strategic ambition to deliver longer-term value and to support charitable giving. By using total shareholders' equity as a basis, our judgement on materiality is in line with the focus and risk profile of both the Group and Parent Company, taking into account the unusual ownership structure of the Group, with the ultimate parent company being a UK registered charity. The factor applied to the benchmark is a matter of professional judgement. During 2018, we carried out a detailed assessment which included considerations of the engagement risk and controls environment, past experience of corrected and uncorrected misstatements as well as benchmarking to other published independent auditor's reports for the insurance industry. Having presented our assessment to the Group Audit Committee in our 2018 audit planning paper, we concluded to increase the factor applied to shareholders' equity from 1% to 2%.	

We agreed with the Group Audit Committee that we would report to the committee all audit differences in excess of £579k (2017: £283k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Group Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.



An overview of the scope of our audit

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

Based on that assessment, we focused our Group audit scope primarily on the audit work for the general and life insurance businesses in the UK, Australia and Canada, as well as the UK insurance broker and investment management subsidiaries, tailoring our procedures depending on the financial significance of the components to the Group.

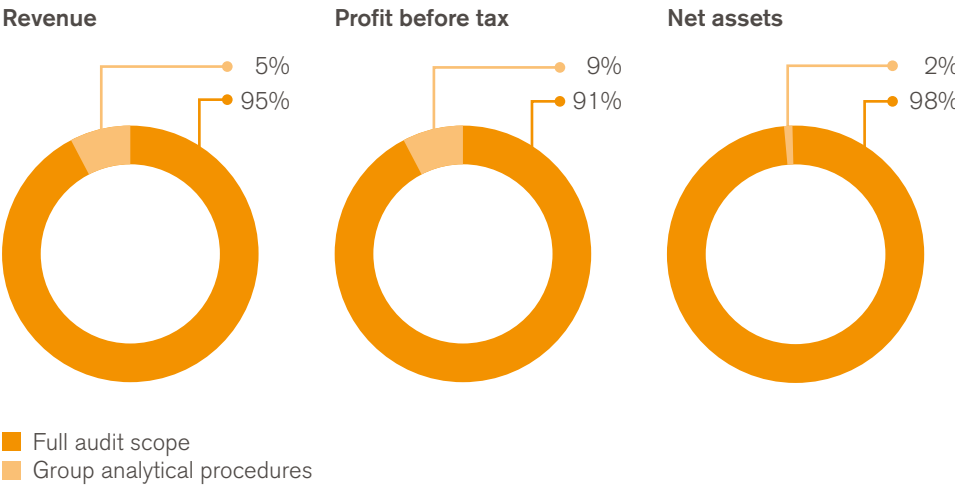
All financially significant components of the Group were subject to full scope audit procedures, which were executed to the lower of Group component materiality ranging from £3.9m to £10.4m, or their respective statutory materiality.

The Group audit team follows a programme of planned visits that has been designed so that a senior member of the Group audit

team visits each of the locations where the Group audit scope is focused at least once every three years. Our most recent visits to the overseas components in Australia and Canada both took place in 2017. The Group Audit Engagement Partner is also the Audit Partner for the group's UK-based components and subsidiaries.

During the 2018 audit, we included the component audit teams in our team briefings, discussed their risk assessments, and reviewed key documentation of the findings from their work. Regular conference calls are held with overseas component audit teams, including the Component Audit Partners and the Group Audit Partner.

At Group level we tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.



Other information

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

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

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

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

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors’ responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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



Auditor’s responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with

laws and regulations, our procedures included the following:

- enquiring of management, Group Internal Audit and the Group Audit Committee, including obtaining and reviewing supporting documentation, concerning the group’s policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
 - discussing among the engagement team, including significant component audit teams, and involving relevant internal specialists (including tax, IT and general insurance actuaries) and experts (including valuations, pensions, financial instrument consultants and life insurance actuaries) regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas:
 - General insurance reserves; and
 - Life insurance reserves.

- obtaining an understanding of the legal and regulatory framework that the group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the group. The key laws and regulations we considered in this context included the UK Companies Act and relevant tax legislation. In addition, compliance with terms of the group’s regulatory solvency requirements as governed by the Prudential Regulation Authority (‘PRA’) were fundamental to the group’s ability to continue as a going concern.

Audit response to risks identified

As a result of performing the above, we identified general insurance reserves and life insurance reserves as key audit matters. The key audit matter section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Group Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing Group Internal Audit reports and reviewing correspondence with HMRC, the FCA and the PRA;
- engaging actuarial specialists and experts to assess the assumptions, methodology and judgement used in calculating the general and life insurance reserves and the pension obligation, as well as the compliance of these calculations with relevant regulation; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.



Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and of the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

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

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the Group Audit Committee, we were appointed by the Group's Board of Directors on 1 November 1998 to audit the financial statements for the year ended 31 December 1998 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 21 years, covering the years ended 31 December 1998 to 31 December 2018.

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

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

Use of this report

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

Paul Stephenson BA FCA

(Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
19 March 2019

Section Four

Financial Statements

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Consolidated statement of profit or loss
for the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Revenue			
Gross written premiums	5, 6	356,971	342,917
Outward reinsurance premiums	6	(137,640)	(129,387)
Net change in provision for unearned premiums	6	(5,241)	(6,318)
Net earned premiums		214,090	207,212
Fee and commission income	7	62,996	60,864
Other operating income		1,039	1,935
Net investment return	8	3,994	72,294
Total revenue		282,119	342,305
Expenses			
Claims and change in insurance liabilities	9	(111,873)	(119,913)
Reinsurance recoveries	9	26,188	32,196
Fees, commissions and other acquisition costs	10	(66,346)	(65,153)
Other operating and administrative expenses		(114,388)	(107,143)
Total operating expenses		(266,419)	(260,013)
Operating profit		15,700	82,292
Finance costs		(329)	(96)
Profit before tax	5	15,371	82,196
Tax expense	14	(958)	(14,054)
Profit for the year (attributable to equity holders of the Parent)	11	14,413	68,142

Consolidated and parent statement of comprehensive income
for the year ended 31 December 2018

	Notes	2018 Group £000	2018 Parent £000	2017 Group £000	2017 Parent £000
Profit for the year		14,413	15,662	68,142	59,073
Other comprehensive income					
<i>Items that will not be reclassified to profit or loss:</i>					
Fair value gains on property		105	105	-	-
Actuarial gains on retirement benefit plans	19	4,288	4,288	44,608	44,608
Attributable tax		(747)	(747)	(7,553)	(7,553)
		3,646	3,646	37,055	37,055
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Losses on currency translation differences	27	(3,082)	(833)	(1,642)	(1,034)
Gains on net investment hedges	27	1,692	453	855	606
Attributable tax	27	(187)	(77)	(73)	(103)
		(1,577)	(457)	(860)	(531)
Net other comprehensive income		2,069	3,189	36,195	36,524
Total comprehensive income attributable to equity holders of the Parent		16,482	18,851	104,337	95,597

Consolidated and parent statement of changes in equity
for the year ended 31 December 2018

Group	Notes	Share capital £000	Share premium £000	Revaluation reserve £000	Translation and hedging reserve £000	Retained earnings £000	Total £000
At 1 January 2018		120,477	4,632	478	20,648	446,238	592,473
Profit for the year		-	-	-	-	14,413	14,413
Other net income/(expense)		-	-	87	(1,577)	3,559	2,069
Total comprehensive income		-	-	87	(1,577)	17,972	16,482
Dividends	15	-	-	-	-	(9,181)	(9,181)
Gross charitable grant	15	-	-	-	-	(17,000)	(17,000)
Tax relief on charitable grant	15	-	-	-	-	3,230	3,230
At 31 December 2018		120,477	4,632	565	19,071	441,259	586,004
At 1 January 2017		120,477	4,632	501	21,508	371,194	518,312
Profit for the year		-	-	-	-	68,142	68,142
Other net income/(expense)		-	-	6	(860)	37,049	36,195
Total comprehensive income		-	-	6	(860)	105,191	104,337
Dividends	15	-	-	-	-	(9,181)	(9,181)
Gross charitable grant	15	-	-	-	-	(26,000)	(26,000)
Tax relief on charitable grant	15	-	-	-	-	5,005	5,005
Reserve transfers		-	-	(29)	-	29	-
At 31 December 2017		120,477	4,632	478	20,648	446,238	592,473
Parent							
At 1 January 2018		120,477	4,632	478	8,035	365,474	499,096
Profit for the year		-	-	-	-	15,662	15,662
Other net income/(expense)		-	-	87	(457)	3,559	3,189
Total comprehensive income		-	-	87	(457)	19,221	18,851
Dividends		-	-	-	-	(9,181)	(9,181)
Gross charitable grant		-	-	-	-	(17,000)	(17,000)
Tax relief on charitable grant		-	-	-	-	3,230	3,230
Group tax relief in excess of standard rate		-	-	-	-	(149)	(149)
At 31 December 2018		120,477	4,632	565	7,578	361,595	494,847
At 1 January 2017		120,477	4,632	501	8,566	299,673	433,849
Profit for the year		-	-	-	-	59,073	59,073
Other net income/(expense)		-	-	6	(531)	37,049	36,524
Total comprehensive income		-	-	6	(531)	96,122	95,597
Dividends		-	-	-	-	(9,181)	(9,181)
Gross charitable grant		-	-	-	-	(26,000)	(26,000)
Tax relief on charitable grant		-	-	-	-	5,005	5,005
Group tax relief in excess of standard rate		-	-	-	-	(174)	(174)
Reserve transfers		-	-	(29)	-	29	-
At 31 December 2017		120,477	4,632	478	8,035	365,474	499,096

The revaluation reserve represents cumulative net fair value gains on owner-occupied property. Further details of the translation and hedging reserve are included in note 27.

Consolidated and parent statement of financial position
at 31 December 2018

Notes	2018		2017	
	Group £000	Parent £000	Group £000	Parent £000
Assets				
Goodwill and other intangible assets	17	30,064	4,849	28,430
Deferred acquisition costs	18	33,907	27,812	31,267
Deferred tax assets	30	1,749	-	1,721
Pension assets	19	16,131	16,131	20,036
Property, plant and equipment	20	8,391	7,372	8,772
Investment property	21	152,182	152,182	152,238
Financial investments	22	798,974	636,688	859,686
Reinsurers' share of contract liabilities	28	140,346	100,238	159,208
Current tax recoverable		59	10	89
Other assets	24	153,630	116,328	150,082
Cash and cash equivalents	25	109,417	72,775	93,767
Total assets		1,444,850	1,134,385	1,505,296
Equity				
Share capital	26	120,477	120,477	120,477
Share premium account		4,632	4,632	4,632
Retained earnings and other reserves		460,895	369,738	467,364
Total shareholders' equity		586,004	494,847	592,473
Liabilities				
Insurance contract liabilities	28	720,049	531,439	769,248
Finance lease obligations		1,379	1,379	1,611
Provisions for other liabilities	29	5,216	5,059	5,599
Retirement benefit obligations	19	5,813	5,813	10,932
Deferred tax liabilities	30	31,665	31,070	38,375
Current tax liabilities		2,905	2,243	2,491
Deferred income	31	19,900	15,280	17,704
Other liabilities	31	71,919	47,255	66,863
Total liabilities		858,846	639,538	912,823
Total shareholders' equity and liabilities		1,444,850	1,134,385	1,505,296

The financial statements of Ecclesiastical Insurance Office plc, registered number 24869, on pages 164 to 233 were approved and authorised for issue by the Board of Directors on 19 March 2019 and signed on its behalf by:

John Hylands
Chairman

Mark Hews
Group Chief Executive

Consolidated and parent statement of cash flows
for the year ended 31 December 2018

	Notes	2018		2017	
		Group £000	Parent £000	Group £000	Parent £000
Profit before tax		15,371	15,762	82,196	70,649
<i>Adjustments for:</i>					
Depreciation of property, plant and equipment		2,437	2,212	2,177	1,970
Revaluation of property, plant and equipment		(85)	(60)	-	-
Profit on disposal of property, plant and equipment		(3)	-	(18)	(15)
Amortisation and impairment of intangible assets		949	699	1,159	918
Net fair value losses/(gains) on financial instruments and investment property		35,506	29,557	(37,664)	(32,436)
Dividend and interest income		(27,107)	(24,307)	(28,230)	(23,242)
Finance costs		329	329	96	96
Adjustment for pension funding		2,931	2,931	3,069	3,069
Changes in operating assets and liabilities:					
Net decrease in insurance contract liabilities		(42,161)	(29,729)	(21,363)	(21,923)
Net decrease in reinsurers' share of contract liabilities		16,431	9,514	5,776	9,578
Net increase in deferred acquisition costs		(3,078)	(2,364)	(762)	(75)
Net increase in other assets		(5,388)	(1,763)	(11,992)	(14,040)
Net increase in operating liabilities		5,838	6,950	8,834	2,665
Net (decrease)/increase in other liabilities		(286)	(309)	438	393
Cash generated/(used) by operations		1,684	9,422	3,716	(2,393)
Purchases of financial instruments and investment property		(125,739)	(96,461)	(153,522)	(128,068)
Sale of financial instruments and investment property		149,562	118,173	169,426	141,054
Dividends received		9,790	13,146	11,754	13,179
Interest received		17,347	11,153	18,809	12,430
Tax paid		(4,998)	(3,140)	(6,832)	(6,247)
Net cash from operating activities		47,646	52,293	43,351	29,955
Cash flows from investing activities					
Purchases of property, plant and equipment		(1,822)	(1,538)	(2,095)	(1,872)
Proceeds from the sale of property, plant and equipment		55	43	376	346
Purchases of intangible assets		(2,371)	(2,060)	(1,002)	(505)
Acquisition of business, net of cash acquired	16	(225)	-	-	-
Acquisition of shares issued by subsidiary	22	-	(274)	-	-
Net cash used by investing activities		(4,363)	(3,829)	(2,721)	(2,031)
Cash flows from financing activities					
Interest paid		(329)	(329)	(96)	(96)
Payment of finance lease liabilities		(346)	(346)	(314)	(314)
Payment of group tax relief in excess of standard rate		-	(174)	-	(218)
Dividends paid to Company's shareholders		(9,181)	(9,181)	(9,181)	(9,181)
Charitable grant paid to ultimate parent undertaking		(17,000)	(17,000)	(26,000)	(26,000)
Net cash used by financing activities		(26,856)	(27,030)	(35,591)	(35,809)
Net increase/(decrease) in cash and cash equivalents		16,427	21,434	5,039	(7,885)
Cash and cash equivalents at beginning of year		93,767	51,399	89,494	59,743
Exchange losses on cash and cash equivalents		(777)	(58)	(766)	(459)
Cash and cash equivalents at end of year	25	109,417	72,775	93,767	51,399

Notes to the financial statements

1 Accounting policies

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

Basis of preparation

The Group's consolidated and Parent's financial statements have been prepared using the following accounting policies, which are in accordance with IFRS applicable at 31 December 2018 issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU). The financial statements have been prepared on the historical cost basis, except for the revaluation of properties and certain financial instruments.

The Financial Performance and Risk Management sections of the Strategic Report provide a review of the Group's business activities and describe the principal risks and uncertainties, including exposures to insurance, financial, operational and strategic risk. The Group has considerable financial resources: financial investments of £799.0m, 92% of which are liquid (2017: financial investments of £859.7m, 93% liquid), cash and cash equivalents of £109.4m and no borrowings (2017: cash and cash equivalents of £93.8m and no borrowings). Liquid financial investments consist of listed equities and open-ended investment companies, government bonds and listed debt. The Group also has a strong risk management framework and solvency position, and has proved resilient to stress testing. As a consequence, the directors have a reasonable expectation that the Group is well placed to manage its business risks successfully and continue in operational existence for at least twelve months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

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

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

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

New and revised Standards

In the current year the Group has adopted the following Standards and Amendments:

- IFRS 15, *Revenue from Contracts with Customers*
- IFRS 4 (Revised), *Insurance Contracts*

The Group and Parent adopted IFRS 15 Revenue from Contracts with Customers with effect from 1 January 2018. IFRS 15 introduced a five-step approach to revenue recognition and established 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.

IFRS 15 has been applied using the modified approach, applied retrospectively only to contracts that were not completed contracts at 1 January 2018. Under the modified approach, the cumulative effect of initially applying IFRS 15 is recognised as an adjustment to opening reserves. The adoption of IFRS 15 did not have a material impact on the Group's or Parent's financial statements and consequently no adjustment has been made to opening reserves. Minor amendments have been made to the Group's accounting policies as shown below, which had no impact on the amounts recognised in the financial statements at 1 January 2018 or 31 December 2018:

- Income generated from insurance placements through the Group's insurance broking activities was previously recognised at the inception date of the cover. Under IFRS 15 it is recognised at the point at which the performance obligation is satisfied, being the inception date of the cover, or, where this income is variable, the point at which it is reasonably certain that no significant reversal of the amount recognised would occur.
- Fees charged for investment management services were previously recognised when the services were provided. Under IFRS 15, as the fees are variable, they are recognised over time as the services are provided, and once it is reasonably certain that no significant reversal of the amount recognised would occur.

Notes to the financial statements

1 Accounting policies (continued)

The current year financial statements are impacted by the adoption of IFRS 15, as well as by the impact of other changes made by the Group during the year, including the recognition of an provision for the clawback of commission income and presentational changes. The impact is as follows:

<i>Impact on statement of profit or loss</i>	2018 £000
Fee and commission income	
IFRS 15 - Deferral of revenue attributable to performance obligations satisfied over time, not previously deferred	(112)
Provision for clawback of commission income	(94)
Reclassification of income previously offset against administrative expenses	129
	(77)
Administrative expenses	
Reclassification of income previously offset against administrative expenses	(129)
IFRS 15 - Release of expense creditor in respect of performance obligations satisfied over time	65
	(64)
Decrease in income tax expense	27
Decrease in the profit for the year	(114)

The amendment to IFRS 4 which permits an insurer to take a temporary exemption from applying the requirements of IFRS 9, Financial Instruments, became applicable to the Group and Parent in the year. The Group qualifies for the temporary exemption, which is available until annual periods beginning on or after 1 January 2021, since at 31 December 2015 greater than 90% of its liabilities were within the scope of IFRS 4. The Parent qualifies for the temporary exemption since at 31 December 2015 greater than 80% of its liabilities were within the scope of IFRS 4 and it does not engage in significant activities unconnected with insurance. Other liabilities of the Parent include employment benefit and tax liabilities which arise solely because the Parent insures, or fulfils obligations arising from insurance contracts. There has been no significant change to the Group or Parent's operations since 31 December 2015 and as a result, the Group and Parent continue to apply IAS 39, Financial Instruments.

Additional disclosures as a result of the amendments to IFRS 4 are included in note 4(a)(ii). Credit risk concentrations are disclosed in note 4(d)(i).

Certain entities within the Group do not qualify for the temporary exemption from the requirements of IFRS 9. Further information detailing the adoption of IFRS 9 is disclosed in the statutory financial statements of these entities.

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

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

Standard	Key requirements	Expected impact on financial statements	Effective date
IFRS 9, Financial Instruments	Provides a new model for the classification and measurement of financial instruments, a single, forward-looking 'expected loss' impairment model and a reformed approach to hedge accounting.	It is expected that equity instruments will continue to be measured at fair value through profit or loss. There is a possibility that the measurement of certain debt instruments will change to amortised cost or fair value through other comprehensive income. No changes are expected from the more principles-based hedge accounting requirements. The Group is eligible for, and has applied the deferral approach, which gives a temporary exemption from applying IFRS 9 until the effective date of 'IFRS 17, Insurance contracts'.	Annual periods beginning on or after 1 January 2018. Although can be deferred until 2021 for insurers. A further one-year deferral for insurers has tentatively been proposed subject to due process.
IFRS 16, Leases	Provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the term is 12 months or less or the underlying asset has a low value.	The Group's leasing arrangements have been reviewed in light of the new lease accounting rules in IFRS 16. As at 31 December 2018, the Group has non-cancellable operating lease commitments of £19.6m. The Group expects to recognise a right-of-use asset of approximately £11.7m on 1 January 2019, lease liabilities of £12.4m (after adjustments for prepaid lease payments recognised at 31 December 2018). There is not expected to be a significant impact on profit after tax; however, it is expected that operating expenses will decrease, and finance costs increase by approximately £0.6m.	Annual periods beginning on or after 1 January 2019.

Notes to the financial statements

1 Accounting policies (continued)

IFRS 17, Insurance Contracts	Requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts.	IFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. The standard was issued in May 2017 as replacement for IFRS 4 Insurance Contracts and the impact of the standard on the financial statements is still being assessed. The Group's long-term business is expected to be the most affected by the new standard. The company expects to be able to use the simplified premium allocation approach to the majority of its general business insurance contracts, which applies mainly to short-duration contracts. Amendments to IFRS 17 were tentatively proposed by the IASB in January 2019, the outcome of which is being monitored.	Applicable to annual reporting periods beginning on or after 1 January 2021 (subject to EU endorsement). A one-year deferral has tentatively been proposed by the IASB subject to due process.
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The other Standards in issue but not yet effective are not expected to materially impact the Group.

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

Operating profit or loss
Operating profit or loss is stated before finance costs.

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

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

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

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

Notes to the financial statements

1 Accounting policies (continued)

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

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

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

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

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

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

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

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

Fee and commission income
Fee and commission income consists primarily of reinsurance commissions and reinsurance profit commissions which are accounted for in accordance with *IFRS 4 Insurance contracts*. It also includes income from the Group's insurance broking activities, investment fund management fees, distribution fees from mutual funds and commission revenue from the sale of mutual fund shares which are accounted for in accordance with *IFRS 15 Revenue from contracts with customers*.

As with general insurance premiums, reinsurance commissions are accounted for in the period in which the risk commences. Those proportions of reinsurance commissions written in a year which relate to periods of risk extending beyond the end of the year, are carried forward as deferred income. Reinsurance profit commissions are recognised at the point in time when the amount of commission can be accurately estimated.

Income generated from the Group's insurance broking activities is recognised at the point at which the performance obligation is satisfied, being the inception date of the insurance cover, or, where this income is variable, the point at which it is reasonably certain that no significant reversal of the amount recognised would occur. An estimate is made for the amount of fees and commission that may be clawed back as a result of policy cancellations or amendments in relation to performance obligations satisfied in the year. This is deducted from fee and commission income and recognised in provisions. Where commission or fees are received in advance of the inception date of cover, deferred income is recognised. Receivables are recognised in other debtors on inception date of cover in respect of fees or commissions that the Group has an unconditional right to receive.

Fees charged for investment management services are variable based on funds under management and are recognised over time as the services are provided, once it is reasonably certain that no significant reversal of the amount recognised would occur. Fees charged for investment management services for institutional and retail fund management are also recognised on this basis.

Notes to the financial statements

1 Accounting policies (continued)

Other operating income
Other operating income consists of the return of surplus reserves from a government-backed reinsurance scheme. It is recognised when the distribution is declared.

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

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

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

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

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

Life business claims and death claims are accounted for when notified.

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

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

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

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

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

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

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

Notes to the financial statements

1 Accounting policies (continued)

Intangible assets

Goodwill

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

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

Computer software

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

Other intangible assets

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

Property, plant and equipment

Owner-occupied properties are stated at open market value and movements are taken to the revaluation reserve within equity, net of deferred tax. When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings.

Where the market value of an individual property is below original cost, any revaluation movement arising during the year is recognised within net investment return in the statement of profit or loss. Valuations are carried out at least every three years by external qualified surveyors. All other items classed as property, plant and equipment within the statement of financial position are carried at historical cost less accumulated depreciation and impairment.

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

Computer equipment	3 - 5 years straight line
Motor vehicles	4 years straight line or 27% reducing balance
Fixtures, fittings and office equipment	3 - 10 years or length of lease straight line

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

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

Investment property

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

Notes to the financial statements

1 Accounting policies (continued)

Financial instruments

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

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

- Financial instruments designated as fair value through profit or loss, those held for trading, and hedge accounted derivatives under IFRIC 16 are subsequently carried at fair value. To the extent to which they are effective, changes to the fair value of hedging instruments are recognised in other comprehensive income, with all other fair value changes recognised through profit or loss in the period in which they arise.
- All other financial assets and liabilities are measured at amortised cost, using the effective interest method (except for short-term receivables and payables when the recognition of interest would be immaterial).

Offset of financial assets and financial liabilities

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

Financial investments

The Group accounts for financial assets under IAS 39 and classifies its financial investments as either financial assets at fair value through profit or loss (designated as such or held for trading), as financial assets at fair value through other comprehensive income or as loans and receivables.

(a) Financial assets at fair value through profit or loss

Financial investments are classified into this category if they are managed, and their performance evaluated, on a fair value basis. Purchases and sales of these investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the assets, at their fair value adjusted for transaction costs. Financial investments within this category are classified as held for trading if they are derivatives that are not accounted for as a net investment hedge or are acquired principally for the purpose of selling in the near term.

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

Derivative financial instruments and hedging

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

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

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

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

Notes to the financial statements

1 Accounting policies (continued)

(b) Financial assets at fair value through other comprehensive income
Derivative instruments for hedging of net investments in foreign operations

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

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

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

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

(c) Loans and receivables

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

Deferred acquisition costs
General insurance business

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

Life business

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

Cash and cash equivalents

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

Insurance broking debtors and creditors

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

Leases

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.

Notes to the financial statements

1 Accounting policies (continued)

Provisions and contingent liabilities

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

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

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

Employee benefits
Pension obligations

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

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

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

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

Other post-employment obligations

Some Group companies provide post-employment medical benefits to their retirees. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Interest expense (calculated by applying a discount rate to the net obligations) is recognised through profit or loss. Actuarial gains and losses are recognised immediately in other comprehensive income. Independent qualified actuaries value these obligations annually.

Other benefits

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

Taxation

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

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

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

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

Notes to the financial statements

1 Accounting policies (continued)

Appropriations

Dividends

Dividends on Ordinary shares are recognised in equity in the period in which they are declared and, for the final dividend, approved by shareholders. Dividends on Non-Cumulative Irredeemable Preference shares are recognised in the period in which they are declared and appropriately approved.

Charitable grant to ultimate parent undertaking

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

Use of Alternative Performance Measures (APM)

As detailed in the Strategic Report, the Group uses certain key performance indicators which, although not defined under IFRS, provide useful information and aim to enhance understanding of the Group's performance. The key performance indicators should be considered complementary to, rather than a substitute for, financial measures defined under IFRS. Note 35 provides details of how these key performance indicators reconcile to the results reported under IFRS.

Notes to the financial statements

2 Critical accounting estimates and judgements in applying accounting policies

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

(a) Critical judgements in applying the Group's accounting policies

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

Pension and other post-employment benefits

The Group's pension and other post-employment benefit obligations are discounted at a rate set by reference to market yields at the end of the reporting period on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds includes the nature and quality of the corporate bonds and the identification of outliers which are excluded. Further details are disclosed in note 19.

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

Unlisted equity securities

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

Goodwill impairment

Goodwill is allocated to a cash-generating unit (CGU) and assessed annually for impairment. The CGU is defined in accordance with the IAS 36. Judgement is required when assessing which assets and liabilities form part of the CGU, particularly in assessing the level of cash which is determined using the projected working capital requirements of that CGU.

(b) Key sources of estimation uncertainty

In applying the Group's accounting policies various transactions and balances are valued using estimates or assumptions. All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions.

There is uncertainty as to the economic effect that Brexit will have in both the short and long term. The key estimates and assumptions set out below include variables which may be impacted (either positively or negatively) by Brexit. These include but are not limited to discount rate, inflation, long-term economic growth rate and investment market returns. Given the range of possible outcomes of Brexit, management have not altered any key estimates or assumptions for a specific Brexit scenario.

Notes to the financial statements

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

The following items are considered key estimates and assumptions which, if actual results differ from those predicted, may have significant impact on the following year's financial statements:

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

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

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

The uncertainties surrounding the estimates of claims payments for the various classes of business are discussed further in note 3, and where discount rates have been applied these are disclosed in note 28(a). General business insurance liabilities include a margin for risk and uncertainty in addition to the best estimates for future claims. The sensitivity of profit or loss to changes in the ultimate settlement cost of claims reserves is presented in note 28(a).

Future benefit payments arising from life insurance contracts

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

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

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

In addition to the best estimates of future deaths, inflation, investment returns and administration expenses, margins for risk and uncertainty are added to these assumptions in calculating the liabilities of life insurance contracts. The sensitivity of profit or loss to changes in the assumptions is presented in note 28(b)(iii).

Pension and other post-employment benefits

The cost of these benefits and the present value of the pension and other post-employment benefit liabilities depend on factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the charge to profit or loss for these benefits include the discount rate and, in the case of the post-employment medical benefits, expected medical expense inflation. Any changes in these assumptions will impact profit or loss and may affect planned funding of the pension plans.

The effect of movements in the actuarial assumptions during the year, including discount rate, mortality, inflation, salary and medical expense inflation assumptions, on the pension and other post-employment liabilities are recognised in other comprehensive income. An explanation of the actuarial gains recognised in the current year is included in note 19. The Group determines an appropriate discount rate at the end of each year, to be used to determine the present value of estimated future cash outflows expected to be required to settle the pension and other post-employment benefit obligations.

The expected rate of medical expense inflation is determined by comparing the historical relationship of medical expense increases over a portfolio of UK-based post-retirement medical plans with the rate of inflation, making an allowance for the size of the plan and actual medical expense experience. Other key assumptions for the pension and post-employment benefit costs and credits are based in part on current market conditions. Additional information including the sensitivity of pension and post-employment medical benefit scheme liabilities to changes in the key assumptions is disclosed in note 19.

Notes to the financial statements

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

Unlisted equity securities

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

Carrying value of goodwill

Goodwill is tested annually for impairment as detailed in the Group's accounting policies. In order to calculate the value in use under this policy, the Group is required to make an estimation of the future cash flows expected to arise from the business unit, an appropriate long-term growth rate to apply to the cash flows and a suitable discount rate to calculate the present value. Further details on these estimates and sensitivities of the carrying value of goodwill to these estimates are provided in note 17.

Notes to the financial statements

3 Insurance risk

Through its general and life insurance operations, the Group is exposed to a number of risks, as summarised in the Risk Management section of the Strategic Report. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount and timing of the resulting claim. Factors such as the business and product mix, the external environment including market competition and reinsurance capacity all may vary from year to year, along with the actual frequency, severity and ultimate cost of claims and benefits. This subjects the Group to underwriting and pricing risk (the risk of failing to ensure disciplined risk selection and to obtain the appropriate premium), claims reserving risk (the risk of actual claims payments exceeding the amount we are holding in reserves) and reinsurance risk (the risk of failing to access and manage reinsurance capacity at a reasonable price).

(a) Risk mitigation

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

Catastrophe protection is purchased following an extensive annual modelling exercise of gross and net (of proportional reinsurance) exposures. In conjunction with reinsurance brokers the Group utilises the full range of proprietary catastrophe models and continues to develop bespoke modelling options that better reflect the specialist nature of the portfolio. Reinsurance is purchased in line with the Group's risk appetite.

(b) Concentrations of risk

The core business of the Group is general insurance, with the principal classes of business written being property and liability. The miscellaneous financial loss class of business covers personal accident, fidelity guarantee and loss of money, income and licence. The other class of business includes cover of legal expenses and also a small portfolio of motor policies, but this has been in run off in the United Kingdom since November 2012. The Group's whole-of-life insurance policies support funeral planning products.

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

2018		General insurance				Life insurance	
		Miscellaneous financial					
Group		Property £000	Liability £000	loss £000	Other £000	Funeral plans £000	Total £000
Territory							
United Kingdom and Ireland	Gross	172,191	53,949	16,922	2,784	21	245,867
	Net	92,337	51,490	10,657	645	21	155,150
Australia	Gross	34,681	20,141	1,115	1,009	-	56,946
	Net	3,550	17,289	1,073	169	-	22,081
Canada	Gross	36,560	17,598	-	-	-	54,158
	Net	25,854	16,246	-	-	-	42,100
Total	Gross	243,432	91,688	18,037	3,793	21	356,971
	Net	121,741	85,025	11,730	814	21	219,331
Parent							
Territory							
United Kingdom and Ireland	Gross	172,233	53,949	16,922	2,784	-	245,888
	Net	92,337	51,490	10,657	645	-	155,129
Canada	Gross	36,559	17,598	-	-	-	54,157
	Net	25,852	16,246	-	-	-	42,098
Total	Gross	208,792	71,547	16,922	2,784	-	300,045
	Net	118,189	67,736	10,657	645	-	197,227

Notes to the financial statements

3 Insurance risk (continued)

2017		General insurance				Life insurance	
		Miscellaneous financial					
Group		Property £000	Liability £000	loss £000	Other £000	Funeral plans £000	Total £000
Territory							
United Kingdom and Ireland	Gross	163,907	52,352	15,691	2,494	28	234,472
	Net	88,269	50,111	9,826	473	28	148,707
Australia	Gross	33,225	21,411	1,286	943	-	56,865
	Net	4,356	18,429	1,240	934	-	24,959
Canada	Gross	35,399	16,181	-	-	-	51,580
	Net	24,801	15,063	-	-	-	39,864
Total	Gross	232,531	89,944	16,977	3,437	28	342,917
	Net	117,426	83,603	11,066	1,407	28	213,530
Parent							
Territory							
United Kingdom and Ireland	Gross	164,024	52,352	15,691	2,494	-	234,561
	Net	88,270	50,111	9,826	473	-	148,680
Canada	Gross	35,399	16,181	-	-	-	51,580
	Net	24,801	15,063	-	-	-	39,864
Total	Gross	199,423	68,533	15,691	2,494	-	286,141
	Net	113,071	65,174	9,826	473	-	188,544

(c) General insurance risks

Property classes

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

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

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

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

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

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

Claims payment, on average, occurs within a year of the event that gives rise to the claim. However, there is variability around this average with larger claims typically taking longer to settle and business interruption claims taking much longer depending on the length of the indemnity period involved.

Notes to the financial statements

3 Insurance risk (continued)

Liability classes

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

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

The frequency and severity of claims arising on liability insurance contracts, including the liability element of motor contracts, can be affected by several factors. Most significant are the increasing level of awards for damages suffered, legal costs and the potential for periodic payment awards.

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

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

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

Provisions for latent claims

The public and employers' liability classes can give rise to very late reported claims, which are often referred to as latent claims. These can vary in nature and are difficult to predict. They typically emerge slowly over many years, during which time there can be particular uncertainty as to the number of future potential claims and their cost. The Group has reflected this uncertainty and believes that it holds adequate reserves for latent claims that may result from exposure periods up to the reporting date.

Note 28 presents the development of the estimate of ultimate claim cost for public and employers' liability claims occurring in a given year. This gives an indication of the accuracy of the estimation technique for incurred claims.

(d) Life insurance risks

The Group provides whole-of-life insurance policies to support funeral planning products, for most of which the future benefits are linked to inflation and backed by index-linked assets. Although assets are well matched to liabilities, there is a risk that returns on assets held to back liabilities are insufficient to meet future claims payments, particularly if the timing of claims is different from that assumed. This is not one of the Group's principal risks and new policies are no longer being written in the life fund, with only minimal premiums now being received each year.

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

Notes to the financial statements

4 Financial risk and capital management

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

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

(a) Categories of financial instruments

(i) Classification applying IAS 39

Group	Financial assets				Financial liabilities			Total
	Designated at fair value	Held for trading	Loans and receivables	Hedge accounted derivatives	Held for trading	Financial liabilities*	Other assets and liabilities	
	£000	£000	£000	£000	£000	£000	£000	
At 31 December 2018								
Financial investments	782,976	5,331	9,930	737	-	-	-	798,974
Other assets	-	-	149,119	-	-	-	4,511	153,630
Cash and cash equivalents	-	-	109,417	-	-	-	-	109,417
Other liabilities	-	-	-	-	(2,306)	(60,969)	(8,644)	(71,919)
Net other	-	-	-	-	-	-	(404,098)	(404,098)
Total	782,976	5,331	268,466	737	(2,306)	(60,969)	(408,231)	586,004

At 31 December 2017

Financial investments	845,811	2,611	9,862	1,388	-	-	14	859,686
Other assets	-	-	145,568	-	-	-	4,514	150,082
Cash and cash equivalents	-	-	93,767	-	-	-	-	93,767
Other liabilities	-	-	-	-	-	(58,633)	(8,230)	(66,863)
Net other	-	-	-	-	-	-	(444,199)	(444,199)
Total	845,811	2,611	249,197	1,388	-	(58,633)	(447,901)	592,473

Parent

At 31 December 2018								
Financial investments	570,353	5,823	9,928	245	-	-	50,339	636,688
Other assets	-	-	112,569	-	-	-	3,759	116,328
Cash and cash equivalents	-	-	72,775	-	-	-	-	72,775
Other liabilities	-	-	-	-	(2,306)	(37,994)	(6,955)	(47,255)
Net other	-	-	-	-	-	-	(283,689)	(283,689)
Total	570,353	5,823	195,272	245	(2,306)	(37,994)	(236,546)	494,847

At 31 December 2017

Financial investments	622,560	3,425	9,861	574	-	-	50,079	686,499
Other assets	-	-	111,301	-	-	-	3,806	115,107
Cash and cash equivalents	-	-	51,399	-	-	-	-	51,399
Other liabilities	-	-	-	-	-	(32,828)	(6,483)	(39,311)
Net other	-	-	-	-	-	-	(314,598)	(314,598)
Total	622,560	3,425	172,561	574	-	(32,828)	(267,196)	499,096

* Financial liabilities are held at amortised cost.

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

Notes to the financial statements

4 Financial risk and capital management (continued)

(ii) Categories of financial assets applying IFRS 9

The Group classifies and measures financial instruments using IAS 39 as disclosed in the accounting policies. The table below sets out the fair value of financial assets as at the balance sheet date and the change in fair value during the year, based on the classification and measurement requirements that would result from adopting IFRS 9.

Financial assets which have contractual cash flows that are solely payments of principal and interest on the principal outstanding (SPPI) would be measured at amortised cost, other than those which are held for trading or whose performance is evaluated on a fair value basis. All other financial assets would be measured at fair value.

	SPPI financial assets measured at amortised cost £000	Other financial assets measured at fair value £000	Total financial assets £000
Fair value as at 1 January 2018	249,197	849,810	1,099,007
Change in fair value during the year	19,269	(60,766)	(41,497)
Fair value as at 31 December 2018	268,466	789,044	1,057,510

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

Notes to the financial statements

4 Financial risk and capital management (continued)

(b) Fair value hierarchy

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

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

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

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

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

Group	Fair value measurement at the end of the reporting period based on			Total £000
	Level 1	Level 2	Level 3	
	£000	£000	£000	
At 31 December 2018				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	241,115	246	44,773	286,134
Debt securities	495,348	1,233	261	496,842
Derivatives	-	5,331	-	5,331
	736,463	6,810	45,034	788,307
Financial assets at fair value through other comprehensive income				
Financial investments				
Derivatives	-	737	-	737
Total financial assets at fair value	736,463	7,547	45,034	789,044
At 31 December 2017				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	286,552	238	42,279	329,069
Debt securities	515,277	1,340	125	516,742
Derivatives	-	2,611	-	2,611
	801,829	4,189	42,404	848,422
Financial assets at fair value through other comprehensive income				
Financial investments				
Derivatives	-	1,388	-	1,388
Total financial assets at fair value	801,829	5,577	42,404	849,810

Notes to the financial statements

4 Financial risk and capital management (continued)

Parent	Fair value measurement at the end of the reporting period based on			Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
At 31 December 2018				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	209,834	246	44,771	254,851
Debt securities	314,389	852	261	315,502
Derivatives	-	5,823	-	5,823
	524,223	6,921	45,032	576,176
Financial assets at fair value through other comprehensive income				
Financial investments				
Derivatives	-	245	-	245
Total financial assets at fair value	524,223	7,166	45,032	576,421
At 31 December 2017				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	249,879	238	42,277	292,394
Debt securities	329,116	925	125	330,166
Derivatives	-	3,425	-	3,425
	578,995	4,588	42,402	625,985
Financial assets at fair value through other comprehensive income				
Financial investments				
Derivatives	-	574	-	574
Total financial assets at fair value	578,995	5,162	42,402	626,559

The derivative liabilities of the Group and Parent in the current year were measured at fair value through profit or loss and categorised as level 2 (see note 23).

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

Group	Financial assets at fair value through profit and loss		
	Equity securities £000	Debt securities £000	Total £000
At 31 December 2018			
Opening balance	42,279	125	42,404
Total gains recognised in profit or loss	2,628	5	2,633
Transfers	(134)	134	-
Disposal proceeds	-	(3)	(3)
Closing balance	44,773	261	45,034
Total gains for the period included in profit or loss for assets held at the end of the reporting period	2,656	5	2,661
At 31 December 2017			
Opening balance	35,376	139	35,515
Total gains recognised in profit or loss	8,003	1	8,004
Disposal proceeds	(1,100)	(15)	(1,115)
Closing balance	42,279	125	42,404
Total gains for the period included in profit or loss for assets held at the end of the reporting period	6,897	1	6,898

Notes to the financial statements

4 Financial risk and capital management (continued)

Parent	Financial assets at fair value through profit and loss		
	Equity securities £000	Debt securities £000	Total £000
At 31 December 2018			
Opening balance	42,277	125	42,402
Total gains recognised in profit or loss	2,628	5	2,633
Transfers	(134)	134	-
Disposal proceeds	-	(3)	(3)
Closing balance	44,771	261	45,032
Total gains for the period included in profit or loss for assets held at the end of the reporting period	2,656	5	2,661
At 31 December 2017			
Opening balance	35,375	139	35,514
Total gains recognised in profit or loss	8,002	1	8,003
Disposal proceeds	(1,100)	(15)	(1,115)
Closing balance	42,277	125	42,402
Total gains for the period included in profit or loss for assets held at the end of the reporting period	6,897	1	6,898

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

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

Listed debt and equity securities not in active market (level 2)
These financial assets are valued using third-party pricing information that is regularly reviewed and internally calibrated based on management's knowledge of the markets. Where material, these valuations are reviewed by the Group Audit Committee.

Non-exchange-traded derivative contracts (level 2)
The Group's derivative contracts are not traded in active markets. Foreign currency forward contracts are valued using observable forward exchange rates corresponding to the maturity of the contract and the contract forward rate. Over-the-counter equity or index options and futures are valued by reference to observable index prices.

Unlisted equity securities (level 3)
These financial assets are valued using observable net asset data, adjusted for unobservable inputs including comparable price-to-book ratios based on similar listed companies, and management's consideration of constituents as to what exit price might be obtainable. Where material, these valuations are reviewed by the Group Audit Committee.

The valuation is most sensitive to the level of underlying net assets, the Euro exchange rate, the price-to-book ratio chosen, an illiquidity discount and a credit rating discount applied to the valuation to account for the risks associated with holding the asset. If the price-to-book ratio, illiquidity discount and credit rating discount applied changes by +/-10%, the value of unlisted equity securities could move by +/-£5m (2017: +/-£5m).

The increase in value during the year is primarily the result of an increase in the price-to-book ratio.

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

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

The increase in value during the year is primarily the result of a liability management exercise which restructured an investment from an equity holding to a debt holding.

Notes to the financial statements

4 Financial risk and capital management (continued)

(c) Interest rate risk

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

Interest rate risk concentration is reduced by adopting asset-liability duration matching principles where appropriate. Excluding assets held to back the life business, the average duration of the Group's fixed income portfolio is two years (2017: 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 28(a)(iv).

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

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

Group life business	Maturity			Total £000
	Within 1 year £000	Between 1 & 5 years £000	After 5 years £000	
At 31 December 2018				
Assets				
Debt securities	4,380	26,428	67,630	98,438
Cash and cash equivalents	4,527	-	-	4,527
	8,907	26,428	67,630	102,965
Liabilities (discounted)				
Life business provision	5,728	19,988	56,248	81,964
At 31 December 2017				
Assets				
Debt securities	5,266	21,638	73,231	100,135
Cash and cash equivalents	5,192	-	-	5,192
	10,458	21,638	73,231	105,327
Liabilities (discounted)				
Life business provision	6,031	21,147	60,963	88,141

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

Notes to the financial statements

4 Financial risk and capital management (continued)

(d) Credit risk

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

- counterparty default on loans and debt securities;
- 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; and
- amounts due from insurance intermediaries and policyholders.

The Group is exposed to minimal credit risk in relation to all other financial assets.

The carrying amount of financial and reinsurance assets represents the Group's maximum exposure to credit risk. The Group structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty. Limits on the level of credit risk are regularly reviewed. Where available the Group also manages its exposure to credit risk in relation to credit risk ratings. Investment grade financial assets are classified within the range of AAA to BBB ratings, where AAA is the highest possible rating. Financial assets which fall outside this range are classified as sub-investment grade. 'Not rated' assets capture assets not rated by external ratings agencies.

The 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:

	2018		2017	
	Group £000	Parent £000	Group £000	Parent £000
UK	317,137	218,698	331,787	231,651
Australia	82,901	-	86,440	-
Canada	72,301	72,301	74,143	74,143
Europe	24,503	24,503	24,372	24,372
Total	496,842	315,502	516,742	330,166

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.

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

Notes to the financial statements

4 Financial risk and capital management (continued)

The table below summaries the principal ways in which the Group assesses its exposure to credit risk by category of financial asset.

Debt securities	Current external credit ratings
Reinsurance debtors	Current external credit ratings
Cash	Current external credit ratings
Amounts due from insurance intermediaries	Internal credit risk rating
Amounts due from policy holders	Past due status
Other debtors	Past due status

A detailed breakdown of the Group's current debt securities, reinsurance debtors and cash credit exposure based on S&P or equivalent rating is presented below.

Group	2018			2017		
	Debt securities	Reinsurance debtors	Cash*	Debt securities	Reinsurance debtors	Cash*
	£000	£000	£000	£000	£000	£000
AAA	126,227	-	-	122,829	-	-
AA	142,426	2,788	23,316	144,613	6,144	26,926
A	115,026	8,058	55,090	141,312	6,953	36,551
BBB	91,471	3	40,826	88,483	-	40,053
Below BBB	12,197	-	91	10,354	7	90
Not rated	9,495	763	7	9,151	1,378	7
	496,842	11,612	119,330	516,742	14,482	103,627

Parent	2018			2017		
	Debt securities	Reinsurance debtors	Cash*	Debt securities	Reinsurance debtors	Cash*
	£000	£000	£000	£000	£000	£000
AAA	90,548	-	-	89,479	-	-
AA	72,006	1,704	10,682	74,098	4,303	9,557
A	77,011	2,658	50,599	98,388	5,721	31,392
BBB	61,317	3	21,310	53,587	-	20,213
Below BBB	7,197	-	91	6,396	7	90
Not rated	7,423	763	7	8,218	597	7
	315,502	5,128	82,689	330,166	10,628	61,259

*Cash includes amounts held on deposit classified within financial investments and disclosed in note 22. Cash balances which are not rated relate to cash amounts in hand.

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

An external agency is used to rate agents, brokers and intermediaries on a scale of 0 to 100. A database of their ratings is maintained and updated daily. These ratings are adapted to internal credit ratings based on the Group's credit rating matrix, which rates the agency from very high risk to very low risk.

A breakdown of the Group's current amounts due from insurance intermediaries split by credit quality is shown below. All balances are shown gross of impairment losses.

Group	2018	2017
	£000	£000
Very low risk	21,094	18,414
Low risk	1,724	1,297
Moderate risk	223	169
High risk	46	25
Very high risk	132	144
Not rated	23,959	24,362
	47,178	44,411

Notes to the financial statements

4 Financial risk and capital management (continued)

A breakdown of the Parent's current amounts due from insurance intermediaries split by credit quality is shown below. All balances are shown gross of impairment losses.

Parent	2018	2017
	£000	£000
Very low risk	21,094	18,414
Low risk	1,724	1,297
Moderate risk	223	169
High risk	46	25
Very high risk	132	144
Not rated	7,618	8,389
	30,837	28,438

The Group manages its credit risk at business unit level. All business units are required to implement credit risk management processes and ensure detailed reporting and monitoring of their exposures. Credit management processes differ across business units and as result the Group is unable to rate all intermediary balances in the same categories. Those which cannot be categorised are included as not rated.

The level and age of policyholder debtor balances are regularly assessed via monthly credit management reports. Credit risk ascribed to amounts due from contract holders and other debtors is based on the age of outstanding balances. The following table provides the past due status of outstanding contract holder balances. All balances are shown gross of impairment losses.

Group	2018		2017	
	Contract holders	Other debtors*	Contract holders	Other debtors
	£000	£000	£000	£000
Current	36,342	21,135	33,400	23,286
Past due 1-30 days	347	3	411	8
Past due 31-90 days	18	3	37	-
Past due 91-120 days	1	9	-	15
Past due 120+ days	-	-	3	-
	36,708	21,150	33,851	23,309

Parent	2018		2017	
	Contract holders	Other debtors	Contract holders	Other debtors
	£000	£000	£000	£000
Current	36,003	3,070	33,138	4,013
Past due 1-30 days	347	-	411	-
Past due 31-90 days	18	-	37	-
Past due 91-120 days	1	-	-	-
Past due 120+ days	-	-	3	-
	36,369	3,070	33,589	4,013

*Other debtors includes accrued income but excludes non-financial assets and amounts due to related parties

No amounts due to related parties are past due.

For financial assets meeting the SPPI test that do not have a low credit rating, the carrying amount disclosed above is an approximation of their fair value.

Notes to the financial statements

4 Financial risk and capital management (continued)

(e) Equity price risk

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

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

	2018			2017	
	Group £000	Parent £000		Group £000	Parent £000
UK	241,116	209,833	UK	286,715	250,040
Europe	44,821	44,821	Europe	42,168	42,168
Hong Kong	197	197	Hong Kong	186	186
Total	286,134	254,851	Total	329,069	292,394

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

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

	2018			2017	
	Group £000	Parent £000		Group £000	Parent £000
Aus \$	47,838	3,388	Aus \$	48,745	2,122
Euro	42,538	42,538	Euro	38,100	38,100
Can \$	31,024	31,024	Can \$	31,584	31,584
NZ \$	1,043	1,043	NZ \$	285	285
USD \$	1,004	1,004	USD \$	1,247	1,247

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

Notes to the financial statements

4 Financial risk and capital management (continued)

(g) Liquidity risk

Liquidity risk is the risk that funds may not be available to pay obligations when due. The Group is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts. An estimate of the timing of the net cash outflows resulting from insurance contracts is provided in note 28. The Group has robust processes in place to manage liquidity risk and has available cash balances, other readily marketable assets and access to funding in case of exceptional need. This is not considered to be a significant risk to the Group.

Non-derivative financial liabilities consist of finance leases, which are not material to the Group, and other liabilities for which a maturity analysis is included in note 31.

(h) Market risk sensitivity analysis

The sensitivity of profit and other equity reserves to movements on market risk variables (comprising interest rate, currency and equity price risk), each considered in isolation and before the mitigating effect of derivatives, is shown in the table below. This table does not include the impact of variables on retirement benefit schemes. Financial risk sensitivities for retirement benefit schemes are disclosed separately in note 19.

Group		Potential increase/ (decrease) in profit		Potential increase/ (decrease) in other equity reserves	
Variable	Change in variable	2018 £000	2017 £000	2018 £000	2017 £000
Interest rate risk	-100 basis points	(4,730)	(6,391)	-	(6)
	+100 basis points	2,799	3,202	(3)	2
Currency risk	-10%	4,772	4,021	7,613	8,017
	+10%	(3,904)	(3,290)	(6,229)	(6,559)
Equity price risk	+/-10%	23,177	26,572	-	-

Parent		Potential increase/ (decrease) in profit		Potential increase/ (decrease) in other equity reserves	
Variable	Change in variable	2018 £000	2017 £000	2018 £000	2017 £000
Interest rate risk	-100 basis points	(3,558)	(5,710)	(6)	(2)
	+100 basis points	2,154	3,311	4	(3)
Currency risk	-10%	4,772	4,021	2,674	2,836
	+10%	(3,904)	(3,290)	(2,188)	(2,321)
Equity price risk	+/-10%	20,643	23,611	-	-

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

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

Notes to the financial statements

4 Financial risk and capital management (continued)

(i) Capital management

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

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

The Group is subject to insurance solvency regulations in all the territories in which it issues insurance and investment contracts, and capital is managed and evaluated on the basis of both regulatory and economic capital, at a Group and Parent entity level.

In the UK, the Group and its UK regulated entities are required to comply with rules issued by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA).

Capital is assessed at both individual regulated entity and Group level. The PRA expects a firm, at all times, to hold Solvency II Own Funds in excess of its calculated Solvency Capital Requirement (SCR). Group solvency is assessed at the level of Ecclesiastical Insurance Office Plc (EIO)'s parent, Ecclesiastical Insurance Group (EIG). Consequently, there is no directly comparable solvency measure for EIO Group. Both quarterly and annual quantitative returns are submitted to the PRA, in addition to an annual narrative report, the Solvency and Financial Condition Report (SFCR) which is also published on the company website. A further report, the Regular Supervisory Report (RSR), is periodically submitted to the PRA.

Previously, both EIO and EIG used the standard formula to calculate the SCR. During the year, approval from the PRA was received to use its internal capital model to determine the SCR for EIO and EIG. Subsequently, EIO's SCR is now calculated using a full internal model and EIG's SCR calculated using a partial internal model. Ecclesiastical Life Limited (ELL) continues to adopt the standard formula approach in determining its SCR.

The current year figures in the table below are unaudited and based on the latest information provided to management. The prior year figures in the table below are the final audited figures as disclosed in the Company's SFCRs, available on the Group's website. These differ from the figures reported last year as they were estimated based on information available to management at the time the accounts were signed.

EIO's Solvency II Own Funds will be subject to a separate independent audit, as part of the Group's process for Solvency II reporting to the PRA. EIO's SCR is not subject to audit as it is calculated using an internal model which has been approved for use by the PRA. ELL's figures are not subject to an independent audit due to the Company falling below the threshold calculation detailed in the PRA policy statement PS25/18 (Solvency II: External audit of the public disclosure requirement). The Group's regulated entities, EIO and ELL, expect to meet the deadline for submission to the PRA of 18 April 2019 and their respective SFCRs will be made available on the Group's website shortly thereafter. EIG is also expected to meet its deadline for submission to the PRA of 3 June 2019, with its SFCR also being made available on the Group's website shortly after.

	2018 (unaudited)		2017 (audited)	
	Ecclesiastical Insurance Office plc Parent £000	Ecclesiastical Life Limited £000	Ecclesiastical Insurance Office plc Parent £000	Ecclesiastical Life Limited £000
Solvency II Own Funds	543,970	52,583	561,478	51,944
Solvency Capital Requirement	(256,095)	(15,776)	(292,351)	(18,260)
Own Funds in excess of Solvency Capital Requirement	287,875	36,807	269,127	33,684
Solvency II Capital Cover	212%	333%	192%	284%

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

Notes to the financial statements

5 Segment information

(a) Operating segments

The Group segments its business activities on the basis of differences in the products and services offered and, for general insurance, the underwriting territory. Expenses relating to Group management activities are included within 'Corporate costs'. This reflects the management and internal Group reporting structure.

The activities of each operating segment are described below.

- General business

United Kingdom and Ireland

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

Australia

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

Canada

The Group operates a general insurance Ecclesiastical branch in Canada.

Other insurance operations

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

- Investment management

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

- Broking and Advisory

The Group provides insurance broking through South Essex Insurance Brokers Limited, financial advisory services through Ecclesiastical Financial Advisory Services Limited and risk advisory services through Ansvar Risk Management Services Pty Limited which operates in Australia.

- Life business

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

- Corporate costs

This includes costs associated with Group management activities.

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 1, with the exception of the investment management and broking and advisory segments. These segments do not qualify for the temporary exemption from IFRS 9 available to insurers and as a result have adopted IFRS 9 in the current year. Consequently, their accounting policies for financial instruments may differ, but all other accounting policies are the same as the Group.

Notes to the financial statements

5 Segment information (continued)

Segment revenue

The Group uses gross written premiums as the measure for turnover of the general and life insurance business segments. Turnover of the non-insurance segments comprises fees and commissions earned in relation to services provided by the Group to third parties. Segment revenues do not include net investment return or general business fee and commission income, which are reported within revenue in the consolidated statement of profit or loss.

Revenue is attributed to the geographical region in which the customer is based.

	Gross written premiums £000	2018 Non-insurance services £000	Total £000	Gross written premiums £000	2017 Non-insurance services £000	Total £000
General business						
United Kingdom and Ireland	242,339	-	242,339	231,257	-	231,257
Australia	56,946	-	56,946	56,865	-	56,865
Canada	54,158	-	54,158	51,580	-	51,580
Other insurance operations	3,507	-	3,507	3,187	-	3,187
Total	356,950	-	356,950	342,889	-	342,889
Life business	21	-	21	28	-	28
Investment management	-	12,601	12,601	-	11,685	11,685
Broking and Advisory	-	9,049	9,049	-	8,628	8,628
Group revenue	356,971	21,650	378,621	342,917	20,313	363,230

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

Segment result

General business segment results comprise the insurance underwriting profit or loss, investment activities and other expenses of each underwriting territory. The Group uses the industry standard net combined operating ratio (COR) as a measure of underwriting efficiency. The COR expresses the total of net claims costs, commission and underwriting expenses as a percentage of net earned premiums. Further details on the underwriting profit or loss and COR, which are alternative performance measures that are not defined under IFRS, are detailed in note 35.

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.

2018	Combined operating ratio	Insurance £000	Investments £000	Other £000	Total £000
General business					
United Kingdom and Ireland	80.2%	29,426	(1,836)	(252)	27,338
Australia	93.7%	1,400	2,073	(77)	3,396
Canada	106.5%	(2,599)	1,655	-	(944)
Other insurance operations		963	-	-	963
	86.4%	29,190	1,892	(329)	30,753
Life business		1,642	(3,181)	-	(1,539)
Investment management		-	-	941	941
Broking and Advisory		-	-	2,045	2,045
Corporate costs		-	-	(16,829)	(16,829)
Profit/(loss) before tax		30,832	(1,289)	(14,172)	15,371

Notes to the financial statements

5 Segment information (continued)

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

(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:

	2018 Gross written premiums £000	2018 Non-current assets £000	2017 Gross written premiums £000	2017 Non-current assets £000
United Kingdom and Ireland	245,867	218,119	234,472	217,143
Australia	56,946	1,279	56,865	1,351
Canada	54,158	4,018	51,580	3,650
	356,971	223,416	342,917	222,144

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

6 Net insurance premium revenue

	General business £000	Life business £000	Total £000
For the year ended 31 December 2018			
Gross written premiums	356,950	21	356,971
Outward reinsurance premiums	(137,640)	-	(137,640)
Net written premiums	219,310	21	219,331
Change in the gross provision for unearned premiums	(11,005)	-	(11,005)
Change in the provision for unearned premiums, reinsurers' share	5,764	-	5,764
Change in the net provision for unearned premiums	(5,241)	-	(5,241)
Earned premiums, net of reinsurance	214,069	21	214,090
For the year ended 31 December 2017			
Gross written premiums	342,889	28	342,917
Outward reinsurance premiums	(129,387)	-	(129,387)
Net written premiums	213,502	28	213,530
Change in the gross provision for unearned premiums	(12,369)	-	(12,369)
Change in the provision for unearned premiums, reinsurers' share	6,051	-	6,051
Change in the net provision for unearned premiums	(6,318)	-	(6,318)
Earned premiums, net of reinsurance	207,184	28	207,212

Notes to the financial statements

7 Fee and commission income

During the year, the Group recognised £41,116,000 (2017: £40,451,000) fee and commission income in accordance with IFRS 4 *Insurance Contracts* and £21,880,000 (2017: £20,413,000) in accordance with IFRS 15 *Revenue from contracts with customers*. Fee and commission income from contracts with customers was recognised as follows:

	Recognised at a point in time £000	Recognised over time £000	Total £000
For the year ended 31 December 2018			
General business	230	-	230
Investment management	101	12,500	12,601
Broking and advisory	8,715	334	9,049
	9,046	12,834	21,880
For the year ended 31 December 2017			
General business	100	-	100
Investment management	117	11,568	11,685
Broking and advisory	8,338	290	8,628
	8,555	11,858	20,413

8 Net investment return

	2018 £000	2017 £000
<i>Income from financial assets at fair value through profit or loss</i>		
- equity income	9,794	10,276
- debt income	15,027	16,410
<i>Income from financial assets not at fair value through profit or loss</i>		
- cash and cash equivalents income, net of exchange movements	923	1,040
- other income received	1,289	1,251
<i>Other income</i>		
- rental income	8,238	7,492
Investment income	35,271	36,469
Fair value movements on financial instruments at fair value through profit or loss	(35,450)	30,250
Fair value movements on investment property	(56)	7,414
Fair value movements on property, plant and equipment	85	-
Impact of discount rate change on insurance contract liabilities	4,144	(1,839)
Net investment return	3,994	72,294

Included within cash and cash equivalents income are exchange gains of £84,000 (2017: £338,000).

Included within fair value movements on financial instruments at fair value through profit or loss are £325,000 (2017: £7,778,000) losses in respect of derivative instruments.

Notes to the financial statements

9 Claims and change in insurance liabilities and reinsurance recoveries

	General business £000	Life business £000	Total £000
For the year ended 31 December 2018			
Gross claims paid	155,137	6,111	161,248
Gross change in the provision for claims	(42,915)	-	(42,915)
Gross change in life business provision	-	(6,460)	(6,460)
Claims and change in insurance liabilities	112,222	(349)	111,873
Reinsurers' share of claims paid	(48,691)	-	(48,691)
Reinsurers' share of change in the provision for claims	22,503	-	22,503
Reinsurance recoveries	(26,188)	-	(26,188)
Claims and change in insurance liabilities, net of reinsurance	86,034	(349)	85,685
For the year ended 31 December 2017			
Gross claims paid	148,717	6,158	154,875
Gross change in the provision for claims	(30,807)	-	(30,807)
Gross change in life business provision	-	(4,155)	(4,155)
Claims and change in insurance liabilities	117,910	2,003	119,913
Reinsurers' share of claims paid	(43,676)	-	(43,676)
Reinsurers' share of change in the provision for claims	11,480	-	11,480
Reinsurance recoveries	(32,196)	-	(32,196)
Claims and change in insurance liabilities, net of reinsurance	85,714	2,003	87,717

10 Fees, commissions and other acquisition costs

	2018 £000	2017 £000
Fees paid	15	16
Commission paid	55,551	52,510
Change in deferred acquisition costs	(3,078)	(762)
Other acquisition costs	13,858	13,389
Fees, commissions and other acquisition costs	66,346	65,153

Notes to the financial statements

11 Profit for the year

	2018 £000	2017 £000
Profit for the year has been arrived at after (crediting)/charging		
Net foreign exchange gains	(84)	(338)
Depreciation of property, plant and equipment	2,437	2,177
Profit on disposal of property, plant and equipment	(3)	(18)
Amortisation of intangible assets	927	1,133
Decrease/(increase) in fair value of investment property	56	(7,414)
Employee benefits expense including termination benefits, net of recharges	82,811	76,730
Operating lease rentals	3,428	3,440

12 Auditor's remuneration

	2018 £000	2017 £000
Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts	386	329
Fees payable to the Company's auditor and its associates for other services:		
- The audit of the Company's subsidiaries	152	140
Total audit fees	538	469
- Audit-related assurance services	135	212
- Other assurance services	-	-
Total non-audit fees	135	212
Fees payable to the Company's auditor in respect of associated pension schemes		
- The audit of associated pension schemes	18	18
Total auditor's remuneration	691	699

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

Audit-related assurance services costs have decreased in 2018 from the prior year. ELL is no longer subject to an independent audit due to the company falling below the threshold calculation detailed in the PRA policy statement PS25/18. EIO's SCR and RM are not subject to audit as they are both calculated using an internal model which has been approved for use by the PRA.

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

Notes to the financial statements

13 Employee information

The average monthly number of full-time equivalent employees of the Group and Parent, including executive directors, during the year by geographical location was:

Group	General business No.	2018 Life business No.	Other No.	General business No.	2017 Life business No.	Other No.
United Kingdom and Ireland	771	1	173	750	1	157
Australia	96	-	-	85	-	-
Canada	77	-	-	73	-	-
	944	1	173	908	1	157
Parent	General business No.	2018 Life business No.	Other No.	General business No.	2017 Life business No.	Other No.
United Kingdom and Ireland	771	1	74	750	1	64
Canada	77	-	-	73	-	-
	848	1	74	823	1	64

Average numbers of full-time equivalent employees have been quoted rather than average numbers of employees to give a better reflection of the split between business areas, as some employees' work is divided between more than one business area.

	2018 Group £000	2018 Parent £000	2017 Group £000	2017 Parent £000
Key management personnel				
Wages and salaries	4,208	4,208	4,259	4,259
Social security costs	481	481	428	428
Pension costs - defined contribution plans	235	235	234	234
	4,924	4,924	4,921	4,921
Other employees				
Wages and salaries	62,888	52,178	59,266	48,640
Social security costs	5,821	5,408	5,526	5,103
Pension costs - defined contribution plans	5,491	4,819	3,150	2,516
Pension costs - defined benefit plans	4,952	4,952	4,608	4,608
Other post-employment benefits	259	259	307	307
Total staff costs	84,335	72,540	77,778	66,095
Staff costs recharged to related undertakings of the Group	(1,286)	(7,153)	(1,181)	(6,105)
Capitalised staff costs	(342)	(342)	-	-
	82,707	65,045	76,597	59,990

The above Group figures do not include termination benefits of £129,000 (2017: £198,000), and the above Parent figures do not include termination benefits of £66,000 (2017: £198,000), of which £25,000 (2017: £65,000) was recharged to related undertakings of the Group.

The remuneration of the directors (including non-executive directors), is set out both individually and in aggregate within the Group Remuneration Report in the Corporate Governance section of this report.

Defined contribution pension costs in the current year include a one-off company contribution of £2,017,000 (2017: £nil) that will be paid into the plan during 2019 following closure of the defined benefit pension plan to future accrual, further details of which are included in note 19.

Notes to the financial statements

14 Tax expense

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

		2018 £000	2017 £000
Current tax	- current year	8,873	11,165
	- prior year adjustments	(292)	557
Deferred tax	- temporary differences	(7,623)	2,376
	- prior year adjustments	-	(44)
	- reduction in tax rate	-	-
Total tax expense		958	14,054

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:

	2018 £000	2017 £000
Profit before tax	15,371	82,196
Tax calculated at the UK standard rate of tax of 19% (2017: 19.25%)	2,920	15,823
Factors affecting charge for the year:		
Expenses not deductible for tax purposes	(112)	217
Non-taxable income	(1,538)	(2,479)
Life insurance and other tax paid at non-standard rates	193	316
Utilisation of tax losses for which no deferred tax asset has been recognised	(213)	(336)
Adjustments to tax charge in respect of prior periods	(292)	513
Total tax expense	958	14,054

A change in the UK standard rate of corporation tax from 20% to 19% became effective from 1 April 2017. Where appropriate, current tax has been provided at a rate of 19% for the current year and at a blended rate of 19.25% for the prior year. A further reduction in the rate of corporation tax to 17% will become effective from April 2020. Deferred tax has been provided at an average rate of 17% (2017: 18%).

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

	2018 £000	2017 £000
Current tax charged on:		
Fair value movements on hedge derivatives	110	(30)
Deferred tax (credited)/charged on:		
Fair value movements on property	18	(6)
Actuarial movements on retirement benefit plans	729	7,559
Fair value movements on hedge derivatives	77	103
Total tax charged to other comprehensive income	934	7,626

Tax relief on charitable grants of £3,230,000 (2017: £5,005,000) has been taken directly to equity.

Notes to the financial statements

15 Appropriations

	2018 £000	2017 £000
Amounts recognised as distributions to equity holders in the period:		
Dividends		
Non-Cumulative Irredeemable Preference share dividend (8.625 pence per share)	9,181	9,181
Charitable grants		
Gross charitable grants to the ultimate parent company, Allchurches Trust Limited	17,000	26,000
Tax relief	(3,230)	(5,005)
Net appropriation for the year	13,770	20,995

16 Acquisition of business

On 11 June 2018, South Essex Insurance Brokers Limited acquired certain assets of Equicover Limited and on 30 November 2018 acquired assets of Equestrian World Services from Greenwood Moreland Insurance Broker. Both acquisitions were in order to further expand our equine insurance broking services.

The aggregate amounts recognised in respect of the identifiable assets of both acquisitions are set out in the table below.

	£000
Intangible assets	292
Total assets acquired	292
Satisfied by:	
Cash	225
Contingent consideration agreement	67
Total consideration	292

The net cash outflow arising on the acquisitions was £225,000.

The fair value of the identifiable intangible assets of £292,000 consists of the value of distributor relationships acquired.

The contingent consideration arrangement requires a cash payment to be made on 31 August 2019 and 31 August 2020. The amount paid in each case is determined by the number of policies converted in the two consecutive annual 'earn-out' periods which end on 6 June 2020.

The fair value of contingent consideration at acquisition was £67,000 based on forecast sales for the two 'earn-out' periods. At that time the potential future payment in respect of contingent consideration was between £nil and £90,000.

At the balance sheet date, the fair value of contingent consideration is £63,000 and the movement in the fair value, as shown in note 29, has been credited to profit or loss in the year. Based on the actual policies converted in the period to 31 December 2018 the potential future payment is between £63,000 and £90,000.

No material acquisition-related costs were incurred in relation to the transaction.

The acquisitions contributed £16,000 revenue and £14,000 to the Group's profit before tax between the dates of acquisition and the balance sheet date.

Notes to the financial statements

17 Goodwill and other intangible assets

Group	Goodwill £000	Computer software £000	Other intangible assets £000	Total £000
Cost				
At 1 January 2018	23,779	21,214	5,084	50,077
Additions	-	2,371	292	2,663
Disposals	-	(11)	-	(11)
Exchange differences	-	(121)	-	(121)
At 31 December 2018	23,779	23,453	5,376	52,608
Accumulated impairment losses and amortisation				
At 1 January 2018	306	16,941	4,400	21,647
Amortisation charge for the year	-	797	130	927
Impairment losses for the year	22	-	-	22
Disposals	-	(11)	-	(11)
Exchange differences	-	(41)	-	(41)
At 31 December 2018	328	17,686	4,530	22,544
Net book value at 31 December 2018	23,451	5,767	846	30,064
Cost				
At 1 January 2017	23,779	20,310	5,084	49,173
Additions	-	1,002	-	1,002
Disposals	-	-	-	-
Exchange differences	-	(98)	-	(98)
At 31 December 2017	23,779	21,214	5,084	50,077
Accumulated impairment losses and amortisation				
At 1 January 2017	280	15,964	4,270	20,514
Amortisation charge for the year	-	1,003	130	1,133
Impairment losses for the year	26	-	-	26
Disposals	-	-	-	-
Exchange differences	-	(26)	-	(26)
At 31 December 2017	306	16,941	4,400	21,647
Net book value at 31 December 2017	23,473	4,273	684	28,430

£16,885,000 of the goodwill balance in the current and prior year relates to the acquisition of South Essex Insurance Holdings Limited during 2008. £4,392,000 of the current and prior period balance relates to the acquisition of Lansdown Insurance Brokers Limited during 2014.

Notes to the financial statements

17 Goodwill and other intangible assets (continued)

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. The calculations for all recoverable amounts use cash flow projections based on management-approved business plans, covering a three-year period, with forecast annual cash flows at the end of the planning period continuing thereafter in perpetuity at the UK long-term average growth rate, usually sourced from the Office for Budget Responsibility (OBR). The Group selected a rate of 1.6% (2017: 1.6%) as being appropriate, based on medium-term rates published in the OBR's November report. The pre-tax discount rate of 9.8% (2017: 10.3%) reflects the way that the market would assess the specific risks associated with the estimated cash flows.

The aggregation of assets for identifying the cash-generating unit ('CGU') changed in 2018 to select only the assets which directly impact the cash flow projections. In the prior year the CGU assets were based on the total shareholders' equity of the entity containing the CGU. The reason for the change in basis is to align the cash projections more accurately with the net assets which will produce them.

The recoverable amount of the investment in South Essex Insurance Holdings Limited exceeds its carrying amount by £8.4m (2017: £4.4m). If the cumulative growth rate between 2019 and 2021 was 7.5% lower than assumed in management-approved business plans, or the discount rate increased by 2.6%, then the recoverable amount would equal the carrying amount. For the investment in Lansdown Insurance Brokers Limited, the headroom above the carrying value is significant and reasonably possible changes to the key assumptions do not result in impairment.

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

Other intangible assets consist of acquired brand, customer and distribution relationships, which have an overall remaining useful life of one year on a weighted average basis (2017: one year).

Parent	Computer software	
	2018 £000	2017 £000
Cost		
At 1 January	19,567	19,160
Additions	2,060	505
Disposals	(11)	-
Exchange differences	(121)	(98)
At 31 December	21,495	19,567
Amortisation		
At 1 January	15,999	15,107
Charge for the year	699	918
Disposals	(11)	-
Exchange differences	(41)	(26)
At 31 December	16,646	15,999
Net book value at 31 December	4,849	3,568

18 Deferred acquisition costs

2018		2017	
Group £000	Parent £000	Group £000	Parent £000
At 1 January	31,267	30,705	25,672
Increase in the period	34,041	31,414	25,654
Release in the period	(30,963)	(30,652)	(25,579)
Exchange differences	(438)	(200)	(119)
At 31 December	33,907	31,267	25,628

All balances are current.

Notes to the financial statements

19 Retirement benefit schemes

Defined contribution pension plans

The Group operates a number of defined contribution pension plans, for which contributions by the Group are disclosed in note 13.

Defined benefit pension plans

The Group's main plan is a defined benefit plan operated by the Parent for UK employees, which includes two discrete sections, the EIO Section and Ansvar Section. The plan closed to new entrants on 5 April 2006. The terms of the plan for future service changed in August 2011 from a non-contributory final salary scheme to a contributory scheme in which benefits are based on career average revalued earnings.

On 26 September 2018, the Company commenced consulting members about its proposal for the future of the plan and the consultation period subsequently closed on 26 November 2018. Following a review of member feedback, the Company announced on 18 December 2018 that it had made the decision to close the plan to future accrual on 30 June 2019. Active members in employment at 30 June 2019 will maintain certain enhanced benefits past the date the plan closes to future accrual, including benefits in relation to death in service and ill health retirement. They will also retain the link to final salary whilst they remain employed by the Parent. As a result, there has been no change to the defined benefit obligation as a result of the closure of the plan to future accrual and therefore no curtailment gain or loss has been recognised at the year-end date. From 1 July 2019, active members in employment will join one of the Group's defined contribution plans.

The assets of the defined benefit plan are held separately from those of the Group by the Trustee of the Ecclesiastical Insurance Office plc Staff Retirement Benefit Fund (the 'Fund'). The Fund is subject to the Statutory Funding Objective under the Pensions Act 2004. An independent qualified actuary appointed by the Trustee is responsible for undertaking triennial valuations to determine whether the Statutory Funding Objective is met. Pension costs for the plan are determined by the Trustee, having considered the advice of the actuary and having consulted with the employer. The most recent triennial valuation was at 31 December 2016. The contribution expected to be paid by the Group up until the plan closes to future accrual on 30 June 2019 is £1.3m (2017: £2.8m to 31 December 2018).

Actuarial valuations were reviewed and updated by an actuary at 31 December 2018 for IAS 19 purposes. The announcement of closure to future accrual from 30 June 2019 limits the maximum surplus that the Parent can recognise in respect of the EIO Section of the Fund as it does not have an unconditional right to a refund of surplus. At 31 December 2018 the maximum surplus that could be recognised in the EIO Section is greater than the IAS 19 surplus, therefore the surplus in this Section has been recognised in full in accordance with International Financial Reporting Interpretations Committee 14 (IFRIC 14). The Parent has an unconditional right to a refund of surplus in the Ansvar Section of the Fund which has been recognised in full in accordance with IFRIC 14.

In 2018 there was a High Court ruling relating to Guaranteed Minimum Pensions (GMP) equalisation of the Lloyds Bank pension scheme which has implications for the EIO section of the Group's defined benefit plan. The impact of the ruling has been estimated at £1.5m and is included in the scheme liabilities. This is presented as a past service cost in the statement of profit and loss.

In the current year, actuarial gains arising from changes in financial assumptions of £27.0m (2017: actuarial losses of £21.0m) have been recognised in the statement of other comprehensive income. These gains resulted from a 0.3% increase in the discount rate and a 0.4% decrease in the discretionary pension increase assumption.

In line with common market practice, the defined benefit obligation at the end of the year is projected based on a roll forward of the liabilities in the previous triennial valuation. Experience adjustments arise from differences between actual and assumed experience. A £3.6m experience loss arising from other experience adjustments has been recognised in the year (2017: £8.6m gain arising from membership and other experience adjustments).

In the prior year the formal wind-up of the Ecclesiastical Insurance Office plc Pension & Life Assurance Scheme (EIOPLA), for which the Parent was the sponsoring employer, was completed with the remaining surplus in the scheme of £288,000 refunded. The surplus was distributed equally between the existing and previous sponsoring employers. The Parent, as existing sponsoring employer, received £144,000 on wind-up. The £144,000 restriction in the surplus in the EIOPLA scheme was released through the statement of other comprehensive income, and a loss of £144,000 was recognised in expenses representing the surplus not refunded to the Parent.

Notes to the financial statements

19 Retirement benefit schemes (continued)

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

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

The Trustees set the investment objectives and strategy for the Fund based on independent advice and in consultation with the employer. Key factors addressed in setting strategy include the Fund's liability profile, funding level and strength of employer covenant. Their key objectives are to ensure the Fund can meet members' guaranteed benefits as they fall due, reduce the risk of assets failing to meet its liabilities over the long term and manage the volatility of returns and overall funding level.

A blend of diversified growth assets (equities and property) and protection assets (bonds, gilts and cash) are deployed to balance the level of risk to that required to provide, with confidence, a sufficient return and liquidity to continue to meet members' obligations as they fall due. The Trustees have identified the key risks faced by the Fund in meeting this objective to be falls in interest rates and rising inflation.

In 2016 the Trustees established an LDI portfolio, structured to increase in value with decreases in interest rates and grow in line with inflation expectations. By the beginning of 2018, growth in this portfolio was paused at a level estimated to have hedged 60% of the interest rate and inflation rate risk of the guaranteed benefits of the Fund. Exposure of the Fund's assets to interest rates and inflation counter-balances exposure of the Fund's liabilities to these factors and has reduced, but not eliminated, volatility in the funding position.

The Trustees are currently considering the implications of closure to future accrual on investment strategy whilst monitoring the need for further increases in the LDI hedge levels over time.

Notes to the financial statements

19 Retirement benefit schemes (continued)

Group and Parent	2018	2017
	£000	£000
The amounts recognised in the statement of financial position are determined as follows:		
Present value of funded obligations	(325,738)	(343,143)
Fair value of plan assets	341,869	363,179
	16,131	20,036
Restrictions on asset recognised	-	-
Net defined benefit pension scheme asset/(liability) in the statement of financial position	16,131	20,036
Movements in the net defined benefit pension scheme asset/(liability) recognised in the statement of financial position are as follows:		
At 1 January	20,036	(20,320)
Expense charged to profit or loss*	(5,542)	(5,199)
Amounts recognised in other comprehensive income	(974)	43,424
Contributions paid	2,611	2,419
Distribution of surplus	-	(288)
At 31 December	16,131	20,036
The amounts recognised through profit or loss are as follows:		
Current service cost	4,124	4,142
Administration cost	382	556
Interest expense on liabilities	8,137	8,966
Interest income on plan assets	(8,649)	(8,465)
Past service cost	1,548	-
Total, included in employee benefits expense	5,542	5,199
The amounts recognised in the statement of other comprehensive income are as follows:		
Return on plan assets, excluding interest income	(24,354)	32,671
Experience (losses)/gains on liabilities	(3,601)	8,647
Gains from changes in demographic assumptions	-	22,971
Gains/(losses) from changes in financial assumptions	26,981	(21,009)
Change in asset ceiling	-	144
Total included in other comprehensive income	(974)	43,424
* Charge to profit or loss includes £590,000 (2017: £591,000) in respect of member salary sacrifice contributions.		

Notes to the financial statements

19 Retirement benefit schemes (continued)

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

Group and Parent	2018	2017
	£000	£000
Pension assets	16,131	20,036
Pension liabilities	-	-
	16,131	20,036
The principal actuarial assumptions (expressed as weighted averages) were as follows:	2018	2017
	%	%
Discount rate	2.70	2.40
Inflation (RPI)	3.20	3.20
Inflation (CPI)	2.20	2.20
Future salary increases	4.20	4.45
Future increase in pensions in deferment	2.25	2.20
Future average pension increases (linked to RPI)	3.00	3.00
Future average pension increases (linked to CPI)	1.50	1.75
Mortality rate	2018	2017
The average life expectancy in years of a pensioner retiring at age 65, at the year-end date, is as follows:		
Male	23.1	23.0
Female	24.6	24.5
The average life expectancy in years of a pensioner retiring at age 65, 20 years after the year-end date, is as follows:		
Male	24.9	24.8
Female	26.4	26.3
Plan assets are weighted as follows:	2018	2017
	£000	£000
Cash and other*	22,818	17,925
Equity instruments		
UK quoted	77,179	80,666
UK unquoted	125	233
Overseas quoted	70,397	70,283
	147,701	151,182
Liability driven investments	37,857	47,958
Debt instruments		
UK public sector quoted - fixed interest	2,440	256
UK non-public sector quoted - fixed interest	64,981	74,540
UK quoted - index-linked	23,351	25,626
	90,772	100,422
Derivative financial instruments	(1,981)	790
Property	44,702	44,902
	341,869	363,179

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

The actual return on plan assets was a loss of £15,705,000 (2017: a gain of £41,136,000).

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

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

Notes to the financial statements

19 Retirement benefit schemes (continued)

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

	2018 £000	2017 £000			
Plan assets					
At 1 January	363,179	329,394			
Interest income	8,649	8,465			
Return on plan assets, excluding interest income	(24,354)	32,671			
Pension benefits paid and payable	(8,216)	(9,482)			
Contributions paid	2,611	2,419			
Assets distributed	-	(288)			
At 31 December	341,869	363,179			
Defined benefit obligation					
At 1 January	343,143	349,570			
Current service cost	4,124	4,142			
Administration cost	382	556			
Past service cost	1,548	-			
Interest cost	8,137	8,966			
Pension benefits paid and payable	(8,216)	(9,482)			
Experience losses/(gains) on liabilities	3,601	(8,647)			
Gains from changes in demographic assumptions	-	(22,971)			
(Gains)/losses from changes in financial assumptions	(26,981)	21,009			
At 31 December	325,738	343,143			
Asset ceiling					
At 1 January	-	144			
Change in asset ceiling	-	(144)			
At 31 December	-	-			
History of plan assets and liabilities	2018 £000	2017 £000	2016 £000	2015 £000	2014 £000
Present value of defined benefit obligations	(325,738)	(343,143)	(349,570)	(276,562)	(277,459)
Fair value of plan assets	341,869	363,179	329,394	294,498	298,840
	16,131	20,036	(20,176)	17,936	21,381
Restrictions on asset recognised	-	-	(144)	(7,283)	(563)
Surplus/(deficit)	16,131	20,036	(20,320)	10,653	20,818

The weighted average duration of the defined benefit obligation at the end of the reporting period is 23 years (2017: 23 years).

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

Assumption	Change in assumption	Increase/(decrease) in plan liabilities	
		2018 £000	2017 £000
Discount rate	Increase by 0.5%	(33,630)	(35,480)
	Decrease by 0.5%	39,390	41,550
Inflation	Increase by 0.5%	25,270	26,620
	Decrease by 0.5%	(25,070)	(26,410)
Salary increase	Increase by 0.5%	4,960	5,170
	Decrease by 0.5%	(4,750)	(4,960)
Life expectancy	Increase by 1 year	12,780	13,500
	Decrease by 1 year	(12,780)	(13,500)

Notes to the financial statements

19 Retirement benefit schemes (continued)

Post-employment medical benefits

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

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

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

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

Group and Parent	2018 £000	2017 £000
Present value of unfunded obligations and net obligations in the statement of financial position	5,813	10,932
Movements in the net obligations recognised in the statement of financial position are as follows:		
At 1 January	10,932	11,913
Total expense charged to profit or loss	259	307
Net actuarial gains during the year, recognised in other comprehensive income	(5,262)	(1,184)
Benefits paid	(116)	(104)
At 31 December	5,813	10,932
The amounts recognised through profit or loss are as follows:		
Interest cost	259	307
Total, included in employee benefits expense	259	307

The weighted average duration of the net obligations at the end of the reporting period has reduced to 13.5 years (2017: 18.5 years) primarily due to demographic and assumption changes.

The main actuarial assumptions for the plan are a long-term increase in medical costs of 7.2% (2017: 9.2%) and a discount rate of 2.7% (2017: 2.4%). An actuarial review of the assumptions used to measure the net obligation for post-employment medical benefits was carried out during the current year. As a result of the review, the methodology for setting the medical cost inflation assumption was revised, generating an actuarial gain of £1.8m. An experience gain of £3.3m has been recognised as a result of updating for actual scheme experience. The sensitivity analysis below has been determined based on reasonably possible changes in the assumptions occurring at the end of the accounting period assuming that all other assumptions are held constant.

Assumption	Change in assumption	Increase/(decrease) in plan liabilities	
		2018 £000	2017 £000
Discount rate	Increase by 0.5%	(360)	(923)
	Decrease by 0.5%	397	1,049
Medical expense inflation	Increase by 1.0%	758	2,041
	Decrease by 1.0%	(642)	(1,634)
Life expectancy	Increase by 1 year	513	943
	Decrease by 1 year	(469)	(845)

Notes to the financial statements

20 Property, plant and equipment

Group	Land and buildings £000	Motor vehicles £000	Furniture, fittings and equipment £000	Computer equipment £000	Total £000
Cost or valuation					
At 1 January 2018	2,255	2,426	7,889	7,528	20,098
Additions	-	346	1,257	489	2,092
Disposals	-	(545)	(62)	(77)	(684)
Revaluation	190	-	-	-	190
Exchange differences	-	-	(26)	(26)	(52)
At 31 December 2018	2,445	2,227	9,058	7,914	21,644
Depreciation					
At 1 January 2018	-	816	5,271	5,239	11,326
Charge for the year	-	373	889	1,175	2,437
Disposals	-	(346)	(62)	(68)	(476)
Exchange differences	-	-	(16)	(18)	(34)
At 31 December 2018	-	843	6,082	6,328	13,253
Net book value at 31 December 2018	2,445	1,384	2,976	1,586	8,391
Cost or valuation					
At 1 January 2017	2,565	2,388	7,759	5,917	18,629
Additions	-	703	205	1,859	2,767
Disposals	(310)	(665)	(73)	(233)	(1,281)
Exchange differences	-	-	(2)	(15)	(17)
At 31 December 2017	2,255	2,426	7,889	7,528	20,098
Depreciation					
At 1 January 2017	-	923	4,520	4,488	9,931
Charge for the year	-	356	837	984	2,177
Disposals	-	(463)	(73)	(223)	(759)
Exchange differences	-	-	(13)	(10)	(23)
At 31 December 2017	-	816	5,271	5,239	11,326
Net book value at 31 December 2017	2,255	1,610	2,618	2,289	8,772

All properties were revalued at 31 December 2018. Valuations were carried out by Cluttons LLP, an independent professional firm of chartered surveyors, using standard industry methodology to determine a fair market value. All properties are classified as level 3 assets.

Movements in market values are taken to the revaluation reserve within equity, net of deferred tax. When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings. Where the market value of an individual property is below original cost, any revaluation movement arising during the year is recognised within net investment return in the statement of profit or loss. There have been no transfers between investment categories in the current year.

The value of land and buildings on a historical cost basis is £2,444,000 (2017: £2,444,000).

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

Included within net book value of motor vehicles is £1,315,000 (2017: £1,543,000) in respect of assets held under finance leases.

Notes to the financial statements

20 Property, plant and equipment (continued)

Parent	Land and buildings £000	Motor vehicles £000	Furniture, fittings and equipment £000	Computer equipment £000	Total £000
Cost or valuation					
At 1 January 2018	1,880	2,330	7,424	6,960	18,594
Additions	-	313	1,132	365	1,810
Disposals	-	(508)	(62)	(77)	(647)
Revaluation	165	-	-	-	165
Exchange differences	-	-	(24)	(11)	(35)
At 31 December 2018	2,045	2,135	8,470	7,237	19,887
Depreciation					
At 1 January 2018	-	761	5,130	4,882	10,773
Charge for the year	-	356	821	1,035	2,212
Disposals	-	(318)	(62)	(68)	(448)
Exchange differences	-	-	(15)	(7)	(22)
At 31 December 2018	-	799	5,874	5,842	12,515
Net book value at 31 December 2018	2,045	1,336	2,596	1,395	7,372
Cost or valuation					
At 1 January 2017	2,190	2,250	7,346	5,250	17,036
Additions	-	672	80	1,792	2,544
Disposals	(310)	(592)	-	(71)	(973)
Exchange differences	-	-	(2)	(11)	(13)
At 31 December 2017	1,880	2,330	7,424	6,960	18,594
Depreciation					
At 1 January 2017	-	827	4,361	4,113	9,301
Charge for the year	-	341	782	847	1,970
Disposals	-	(407)	-	(71)	(478)
Exchange differences	-	-	(13)	(7)	(20)
At 31 December 2017	-	761	5,130	4,882	10,773
Net book value at 31 December 2017	1,880	1,569	2,294	2,078	7,821

The Company's properties were revalued at 31 December 2018. Valuations were carried out by Cluttons LLP, an independent professional firm of chartered surveyors, using standard industry methodology to determine a fair market value. All properties are classified as level 3 assets.

Movements in market values are taken to the revaluation reserve within equity, net of deferred tax. When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings. Where the market value of an individual property is below original cost, any revaluation movement arising during the year is recognised within net investment return in the statement of profit or loss. There have been no transfers between investment categories in the current year.

The value of land and buildings on a historical cost basis is £2,044,000 (2017: £2,044,000).

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

Included within net book value of motor vehicles is £1,315,000 (2017: £1,543,000) in respect of assets held under finance leases.

Notes to the financial statements

21 Investment property

Group and Parent	2018 £000	2017 £000
Fair value at 1 January	152,238	125,284
Additions - acquisitions	-	19,540
Fair value (losses)/gains recognised in profit or loss	(56)	7,414
Fair value at 31 December	152,182	152,238

The Group's investment properties were last revalued at 31 December 2018 by Cluttons LLP, an independent professional firm of chartered surveyors. Valuations were carried out using standard industry methodology to determine a fair market value. There has been no change in the valuation technique during the year. All properties are classified as level 3 assets. There have been no transfers between investment categories in the current year.

Investment properties are held for long-term capital appreciation rather than short-term sale. Rental income arising from the investment properties owned by both the Group and Parent amounted to £8,238,000 (2017: £7,492,000) and is included in net investment return. Other operating and administrative expenses include £473,000 (2017: £802,000) relating to investment property, of which £38,000 (2017: £129,000) is in respect of properties not currently generating rental income.

22 Financial investments

Financial investments summarised by measurement category are as follows:

	2018		2017	
	Group £000	Parent £000	Group £000	Parent £000
Financial investments at fair value through profit or loss				
Equity securities				
- listed	241,361	210,080	286,790	250,117
- unlisted	44,773	44,771	42,279	42,277
Debt securities				
- government bonds	148,053	85,470	153,908	93,121
- listed	348,664	229,907	362,709	236,920
- unlisted	125	125	125	125
Derivative financial instruments				
- forwards	-	492	582	1,396
- options	5,331	5,331	2,029	2,029
	788,307	576,176	848,422	625,985
Financial investments at fair value through other comprehensive income				
Derivative financial instruments				
- forwards	737	245	1,388	574
Total financial investments at fair value	789,044	576,421	849,810	626,559
Loans and receivables				
Cash held on deposit	9,913	9,914	9,860	9,860
Other loans	17	14	16	15
Parent investments in subsidiary undertakings				
Shares in subsidiary undertakings	-	50,339	-	50,065
Total financial investments	798,974	636,688	859,686	686,499
Current	343,840	300,773	399,566	350,333
Non-current	455,134	335,915	460,120	336,166

All investments in subsidiary undertakings are unlisted.

Notes to the financial statements

23 Derivative financial instruments

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

The Group has also formally designated certain derivatives as a hedge of its net investments in Australia and Canada. A gain of £1,692,000 (2017: gain of £855,000) in respect of these 'hedge' derivatives has been recognised in the hedging reserve within shareholders' equity, as disclosed in note 27. The Group has formally assessed and documented the effectiveness of derivatives that qualify for hedge accounting in accordance with IAS 39, Financial Instruments: Recognition and Measurement.

Group	Contract/ notional amount £000	2018		2017	
		Fair value asset £000	Fair value liability £000	Contract/ notional amount £000	Fair value asset £000
Non-hedge derivatives					
<i>Equity/Index contracts</i>					
Options	63,077	5,331	-	114,578	2,029
<i>Foreign exchange contracts</i>					
Forwards (Euro)	87,514	-	2,306	93,991	582
Hedge derivatives					
<i>Foreign exchange contracts</i>					
Forwards (Australian dollar)	57,264	492	-	46,934	814
Forwards (Canadian dollar)	27,157	245	-	34,123	574
	235,012	6,068	2,306	289,626	3,999

Included with Equity/Index contracts are options with a contract/notional value of £22,493,000 (2017: £17,991,000), and fair value asset of £2,348,000 (2017: £854,000), which expire in greater than one year. All other derivatives in the current and prior period expire within one year.

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

All contracts designated as hedging instruments were fully effective in the current and prior year.

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

Derivative fair value assets are recognised within financial investments (note 22) and derivative fair value liabilities are recognised within other liabilities (note 31).

Notes to the financial statements

24 Other assets

	2018		2017	
	Group £000	Parent £000	Group £000	Parent £000
Receivables arising from insurance and reinsurance contracts				
- due from contract holders	36,709	36,369	33,851	33,589
- due from agents, brokers and intermediaries	47,025	30,770	44,245	28,369
- due from reinsurers	11,612	5,128	14,482	10,628
Other receivables				
- accrued interest and rent	4,696	3,546	4,922	3,700
- other prepayments and accrued income	4,700	3,901	3,852	3,103
- amounts owed by related parties	30,719	35,311	29,704	34,703
- debtors arising from broking activities	6,236	-	6,201	-
- other debtors	11,933	1,303	12,825	1,015
	153,630	116,328	150,082	115,107
Current	120,851	81,363	117,378	80,081
Non-current	32,779	34,965	32,704	35,026

In the 2017 comparative column, a balance of £4,964,000 was reclassified from 'due from agents, brokers and intermediaries' to 'due from contract holders' to better reflect the nature of the balance. This reclassification did not impact on the 2017 or 2018 balance sheet or any other primary financial statements.

The Group has recognised a charge of £30,000 (2017: £27,000) in other operating and administrative expenses in the statement of profit or loss for the impairment of its trade and other receivables during the year. The Parent has recognised a charge of £46,000 (2017: credit of £48,000).

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

Included within amounts owed by related parties of the Parent is £3,395,000 (2017: £3,551,000) pledged as collateral in respect of an insurance liability.

Included within other receivables of the Group is £1,210,000 (2017: £1,230,000) classified as contract assets, and £1,095,000 (2017: £1,017,000) classified as receivables in accordance with IFRS 15. Included within other receivables of the parent is £nil (2017: £nil) classified as contract assets, and £nil (2017: £nil) classified as receivables in accordance with IFRS 15.

	2018		2017	
	Group £000	Parent £000	Group £000	Parent £000
Movement in the allowance for doubtful debts				
Balance at 1 January	188	69	154	106
Movement in the year	(20)	-	34	(37)
Balance at 31 December	168	69	188	69

Included within trade receivables of the Group is £3,828,000 (2017: £3,106,000) overdue but not impaired, of which £3,387,000 (2017: £2,795,000) is not more than three months overdue at the reporting date. Included within trade receivables of the Parent is £1,975,000 (2017: £2,630,000) overdue but not impaired, of which £1,874,000 (2017: £2,318,000) is not more than three months overdue at the reporting date.

25 Cash and cash equivalents

	2018		2017	
	Group £000	Parent £000	Group £000	Parent £000
Cash at bank and in hand	67,373	40,033	62,474	30,574
Short-term bank deposits	42,044	32,742	31,293	20,825
	109,417	72,775	93,767	51,399

Included within Group cash at bank and in hand are cash deposits of £4,090,000 (2017: £758,000), and included within Parent cash at bank and in hand are deposits of £241,000 (£758,000) pledged as collateral by way of cash calls from reinsurers.

Notes to the financial statements

26 Called up share capital

	Issued, allotted and fully paid	
	2018 £000	2017 £000
Ordinary shares of 4p each	14,027	14,027
8.625% Non-Cumulative Irredeemable Preference shares of £1 each	106,450	106,450
	120,477	120,477
The number of shares in issue are as follows:		
Ordinary shares of 4p each		
At 1 January and 31 December	350,678	350,678
8.625% Non-Cumulative Irredeemable Preference shares of £1 each		
At 1 January and 31 December	106,450	106,450

On winding up, the assets of the Company remaining after payment of its liabilities are to be applied to holders of the Non-Cumulative Irredeemable Preference shares in repaying the nominal capital sum paid up on the shares and an amount equal to all arrears of accrued and unpaid dividends up to the date of the commencement of the winding up. The residual interest in the assets of the Company after deducting all liabilities belongs to the Ordinary shareholders.

Holders of the Non-Cumulative Irredeemable Preference shares are not entitled to receive notice of, or to attend, or vote at any general meeting of the Company unless at the time of the notice convening such meeting, the dividend on such shares which is most recently payable on such shares shall not have been paid in full, or where a resolution is proposed varying any of the rights of such shares, or for the winding up of the Company.

27 Translation and hedging reserve

Group	Translation reserve £000	Hedging reserve £000	Total £000
At 1 January 2018	18,022	2,626	20,648
Losses on currency translation differences	(3,082)	-	(3,082)
Gains on net investment hedges	-	1,692	1,692
Attributable tax	-	(187)	(187)
At 31 December 2018	14,940	4,131	19,071
At 1 January 2017	19,664	1,844	21,508
Losses on currency translation differences	(1,642)	-	(1,642)
Gains on net investment hedges	-	855	855
Attributable tax	-	(73)	(73)
At 31 December 2017	18,022	2,626	20,648
Parent			
At 1 January 2018	7,438	597	8,035
Losses on currency translation differences	(833)	-	(833)
Gains on net investment hedges	-	453	453
Attributable tax	-	(77)	(77)
At 31 December 2018	6,605	973	7,578
At 1 January 2017	8,472	94	8,566
Losses on currency translation differences	(1,034)	-	(1,034)
Gains on net investment hedges	-	606	606
Attributable tax	-	(103)	(103)
At 31 December 2017	7,438	597	8,035

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

Notes to the financial statements

28 Insurance liabilities and reinsurance assets

	2018		2017	
	Group £000	Parent £000	Group £000	Parent £000
Gross				
Claims outstanding	457,319	381,631	509,319	421,397
Unearned premiums	180,766	149,808	171,788	141,707
Life business provision	81,964	-	88,141	-
Total gross insurance liabilities	720,049	531,439	769,248	563,104
Recoverable from reinsurers				
Claims outstanding	78,731	54,357	102,635	67,600
Unearned premiums	61,615	45,881	56,573	42,525
Total reinsurers' share of insurance liabilities	140,346	100,238	159,208	110,125
Net				
Claims outstanding	378,588	327,274	406,684	353,797
Unearned premiums	119,151	103,927	115,215	99,182
Life business provision	81,964	-	88,141	-
Total net insurance liabilities	579,703	431,201	610,040	452,979
Gross insurance liabilities				
Current	321,792	262,780	328,879	263,912
Non-current	398,257	268,659	440,369	299,192
Reinsurance assets				
Current	102,788	74,646	110,013	80,381
Non-current	37,558	25,592	49,195	29,744

(a) General business insurance contracts

(i) Reserving methodology

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

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

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

(ii) Calculation of uncertainty margins

To reflect the uncertain nature of the outcome of the ultimate settlement cost of claims, an uncertainty margin is added to the best estimate. The addition for uncertainty is assessed using actuarial methods including the Mack method and Bootstrapping techniques, based on at least the 75th percentile confidence level for each portfolio. For smaller portfolios, where these methods cannot be applied, provisions are calculated at a level intended to provide an equivalent probability of sufficiency. Where the standard methods cannot allow for changing circumstances, additional uncertainty margins are added and are typically expressed as a percentage of outstanding claims. From time to time, the management may elect to select an additional margin to reflect short-term uncertainty driven by specific events that are not in data. This approach generally results in a favourable release of provisions in the current financial year, arising from the settlement of claims relating to previous financial years, as shown in part (c) of the note.

(iii) Calculation of provisions for latent claims

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

Notes to the financial statements

28 Insurance liabilities and reinsurance assets (continued)

(iv) Discounting

General insurance outstanding claims liabilities 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 (years)	
	2018	2017	2018	2017
UK and Ireland	1.8% to 3.0%	1.0% to 2.5%	17	16
Canada	2.2% to 2.7%	1.9% to 2.6%	15	11
Australia	2.3%	2.5%	5	4

Parent consists of UK, Ireland and Canada. Group also includes Australia.

The above rates of interest are based on government bond yields of the relevant currency and term at the reporting date. Adjustments are made, where appropriate, to reflect portfolio assets held and to allow for future investment expenses. At the year end the undiscounted gross outstanding claims liability was £505,147,000 for the Group (2017: £549,264,000), and £423,097,000 for the Parent (2017: £455,306,000).

The impact of discount rate changes on the outstanding claims liability is presented within net investment return (note 8).

At 31 December 2018, it is estimated that a fall of 1% in the discount rates used would increase the Group's net outstanding claims liabilities by £15,432,000 (2017: £15,683,000). 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 the outstanding claims liability at the year end turns out to be 10% higher or lower than the reserves included in these financial statements, the following pre-tax Group loss or profit will be realised:

		2018		2017	
		Gross £000	Net £000	Gross £000	Net £000
Liability	- UK	19,900	18,800	22,600	21,300
	- Overseas	10,800	9,100	10,600	8,800
Property	- UK	7,200	4,200	6,200	3,700
	- Overseas	4,100	2,100	6,300	2,500
Motor	- UK	200	200	1,200	500

Notes to the financial statements

28 Insurance liabilities and reinsurance assets (continued)

(viii) Claims development tables											
The nature of liability classes of business is that claims may take a number of years to settle and before the final liability is known. The tables below show the development of the undiscounted estimate of ultimate gross and net claims cost for these classes across all territories.											
Estimate of ultimate gross claims											
Group	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	Total £000
At end of year	74,742	84,476	82,095	100,612	81,725	61,901	46,464	51,738	50,736	48,759	
One year later	59,807	75,550	76,371	88,046	80,027	50,571	43,582	46,073	46,885		
Two years later	55,250	62,239	71,543	78,196	69,860	48,327	40,337	41,041			
Three years later	57,134	66,422	68,587	72,516	66,192	45,495	33,804				
Four years later	55,695	61,330	60,841	67,980	60,174	37,064					
Five years later	58,631	62,074	59,914	62,712	56,912						
Six years later	54,942	61,871	57,950	61,213							
Seven years later	57,729	60,155	57,939								
Eight years later	57,626	60,037									
Nine years later	56,556										
Current estimate of ultimate claims	56,556	60,037	57,939	61,213	56,912	37,064	33,804	41,041	46,885	48,759	500,210
Cumulative payments to date	(48,936)	(52,604)	(49,910)	(50,920)	(42,875)	(21,550)	(11,537)	(9,381)	(5,284)	(1,243)	(294,240)
Outstanding liability	7,620	7,433	8,029	10,293	14,037	15,514	22,267	31,660	41,601	47,516	205,970
Effect of discounting											(15,311)
Present value											190,659
Discounted liability in respect of earlier years											116,948
Total discounted gross liability (for liability classes) included in insurance liabilities in the statement of financial position											307,607
Parent	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	Total £000
At end of year	60,810	69,230	66,864	84,511	71,798	52,350	34,769	37,981	34,210	32,992	
One year later	46,660	60,202	63,770	77,629	60,950	40,153	31,941	32,541	33,353		
Two years later	43,853	50,834	62,587	69,580	54,792	39,015	30,129	29,538			
Three years later	49,444	53,390	60,653	63,068	50,492	37,158	27,287				
Four years later	47,970	50,526	52,985	56,225	43,910	31,530					
Five years later	47,482	51,031	50,355	51,872	42,289						
Six years later	45,534	48,499	49,127	50,791							
Seven years later	45,718	47,523	48,927								
Eight years later	45,894	48,082									
Nine years later	45,156										
Current estimate of ultimate claims	45,156	48,082	48,927	50,791	42,289	31,530	27,287	29,538	33,353	32,992	389,945
Cumulative payments to date	(39,388)	(41,368)	(43,129)	(42,784)	(30,998)	(18,812)	(9,410)	(6,616)	(3,429)	(699)	(236,633)
Outstanding liability	5,768	6,714	5,798	8,007	11,291	12,718	17,877	22,922	29,924	32,293	153,312
Effect of discounting											(11,119)
Present value											142,193
Discounted liability in respect of earlier years											110,887
Total discounted gross liability (for liability classes) included in insurance liabilities in the statement of financial position											253,080

Notes to the financial statements

28 Insurance liabilities and reinsurance assets (continued)

Estimate of ultimate net claims											
Group	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	Total £000
At end of year	64,476	73,218	75,302	88,247	76,729	59,633	42,739	47,402	45,920	44,053	
One year later	53,700	64,796	72,336	79,272	66,475	47,690	40,397	41,631	41,706		
Two years later	50,805	57,758	68,057	73,735	60,075	47,428	37,740	37,740			
Three years later	50,168	59,353	66,822	69,837	55,710	41,494	32,297				
Four years later	50,062	55,975	60,314	65,872	51,482	35,164					
Five years later	49,879	57,012	59,521	60,800	49,196						
Six years later	48,960	57,050	57,641	59,338							
Seven years later	52,254	55,778	57,591								
Eight years later	52,330	55,827									
Nine years later	51,684										
Current estimate of ultimate claims	51,684	55,827	57,591	59,338	49,196	35,164	32,297	37,740	41,706	44,053	464,596
Cumulative payments to date	(44,613)	(48,453)	(49,700)	(49,216)	(35,372)	(20,375)	(11,537)	(9,337)	(5,284)	(1,243)	(275,130)
Outstanding liability	7,071	7,374	7,891	10,122	13,824	14,789	20,760	28,403	36,422	42,810	189,466
Effect of discounting											(15,311)
Present value											174,155
Discounted liability in respect of earlier years											108,762
Total discounted net liability (for liability classes) included in insurance liabilities in the statement of financial position											282,917
Parent	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	Total £000
At end of year	51,226	57,135	59,011	74,361	67,690	50,025	33,122	35,882	33,134	31,981	
One year later	39,841	49,060	59,873	69,805	57,538	38,944	31,041	30,906	30,965		
Two years later	40,198	48,250	59,997	65,297	51,828	38,215	29,494	28,199			
Three years later	43,879	51,827	59,352	61,795	47,942	34,393	26,981				
Four years later	44,064	49,171	52,850	55,686	43,568	30,252					
Five years later	43,640	49,598	50,189	51,766	42,126						
Six years later	41,966	47,783	49,029	50,762							
Seven years later	42,761	46,951	48,858								
Eight years later	43,002	47,519									
Nine years later	42,635										
Current estimate of ultimate claims	42,635	47,519	48,858	50,762	42,126	30,252	26,981	28,199	30,965	31,981	380,278
Cumulative payments to date	(37,331)	(40,814)	(43,071)	(42,781)	(30,894)	(17,636)	(9,410)	(6,572)	(3,429)	(699)	(232,637)
Outstanding liability	5,304	6,705	5,787	7,981	11,232	12,616	17,571	21,627	27,536	31,282	147,641
Effect of discounting											(11,119)
Present value											136,522
Discounted liability in respect of earlier years											102,635
Total discounted net liability (for liability classes) included in insurance liabilities in the statement of financial position											239,157

Notes to the financial statements

28 Insurance liabilities and reinsurance assets (continued)

(b) Life insurance contracts

(i) Assumptions

The most significant assumptions in determining life reserves are as follows:

Mortality

An appropriate base table of standard mortality is chosen depending on the type of contract. For the only material line of business, the base tables used are English Life Tables number 16F and English Life Tables number 16M. Where prudent, an allowance is made for future mortality improvements based on trends identified in population data.

Investment returns

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

	2018	2017
UK and overseas government bonds: non-linked	0.98%	0.71%
UK and overseas government bonds: index-linked	-1.89%	-1.85%
Corporate debt instruments: index-linked	-1.38%	-1.35%

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

Funeral plans renewal expense level and inflation

Numbers of policies in force and both projected and actual expenses have been considered when setting the base renewal expense level. The unit renewal expense assumption for this business is £2.40 per annum (2017: £3.20 per annum). Additionally, now the in-force policy volumes are expected to fall, much of the expenses of the company have been reserved for in a separate exercise. A reserve for these expenses is held at £5.4 million (2017: £6.5 million).

Expense inflation is set with reference to the index-linked UK government bond rates of return, and published figures for earnings inflation, and is assumed to be 4.22% per annum (2017: 4.04%).

Tax

It has been assumed that tax legislation and rates applicable at 1 January 2019 will continue to apply. All in-force business is classed as protection business and is expected to be taxed on a profits basis.

(ii) Changes in assumptions

Projected investment returns have been revised in line with the changes in the actual yields of the underlying assets. As a result, liabilities have increased by £0.3 million (2017: £0.4 million increase).

The assumed future expenses of running the business have been revised based on expenses that are expected to be incurred by the company. In particular, costs expected to be incurred to meet professional fees are expected to be lower than had previously been assumed. The effect on insurance liabilities of the changes to renewal expense assumptions (described above) was a £1.1 million decrease (2017: £0.49 million increase).

There has been no change in the mortality assumptions.

(iii) Sensitivity analysis

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

	Change in variable	Potential increase/ (decrease) in the result	
Variable		2018 £000	2017 £000
Deterioration in annuitant mortality	+10%	900	900
Improvement in annuitant mortality	-10%	(1,000)	(1,100)
Increase in fixed interest/cash yields	+1% pa	200	(200)
Decrease in fixed interest/cash yields	-1% pa	(600)	-
Worsening of base renewal expense level	+10%	(600)	(700)
Improvement in base renewal expense level	-10%	600	700
Increase in expense inflation	+1% pa	(900)	(1,100)
Decrease in expense inflation	-1% pa	700	900

Notes to the financial statements

28 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 2018	509,319	(102,635)	406,684
Cash (paid)/received for claims settled in the year	(155,137)	48,691	(106,446)
Change in liabilities/reinsurance assets			
- arising from current year claims	175,127	(53,855)	121,272
- arising from prior year claims	(62,905)	27,667	(35,238)
- change in discount rate	(4,226)	(201)	(4,427)
Exchange differences	(4,859)	1,602	(3,257)
At 31 December 2018	457,319	(78,731)	378,588
Provision for unearned premiums			
At 1 January 2018	171,788	(56,573)	115,215
Increase in the period	181,373	(61,854)	119,519
Release in the period	(170,368)	56,090	(114,278)
Exchange differences	(2,027)	722	(1,305)
At 31 December 2018	180,766	(61,615)	119,151
Life business provision			
At 1 January 2018	88,141	-	88,141
Effect of claims during the year	(6,250)	-	(6,250)
Changes in assumptions	(827)	-	(827)
Change in discount rate	283	-	283
Other movements	617	-	617
At 31 December 2018	81,964	-	81,964
Claims outstanding			
At 1 January 2017	540,864	(115,179)	425,685
Cash (paid)/received for claims settled in the year	(148,717)	43,676	(105,041)
Change in liabilities/reinsurance assets			
- arising from current year claims	172,308	(58,721)	113,587
- arising from prior year claims	(54,398)	26,525	(27,873)
- change in discount rate	1,278	165	1,443
Exchange differences	(2,016)	899	(1,117)
At 31 December 2017	509,319	(102,635)	406,684
Provision for unearned premiums			
At 1 January 2017	160,288	(50,753)	109,535
Increase in the period	172,518	(56,875)	115,643
Release in the period	(160,149)	50,824	(109,325)
Exchange differences	(869)	231	(638)
At 31 December 2017	171,788	(56,573)	115,215
Life business provision			
At 1 January 2017	91,900	-	91,900
Effect of claims during the year	(6,346)	-	(6,346)
Changes in assumptions	585	-	585
Change in discount rate	396	-	396
Other movements	1,606	-	1,606
At 31 December 2017	88,141	-	88,141

Notes to the financial statements

28 Insurance liabilities and reinsurance assets (continued)

Parent	Gross £000	Reinsurance £000	Net £000
Claims outstanding			
At 1 January 2018	421,397	(67,600)	353,797
Cash (paid)/received for claims settled in the year	(127,136)	30,240	(96,896)
Change in liabilities/reinsurance assets			
- arising from current year claims	142,769	(35,207)	107,562
- arising from prior year claims	(49,131)	18,014	(31,117)
- change in discount rate	(5,156)	-	(5,156)
Exchange differences	(1,112)	196	(916)
At 31 December 2018	381,631	(54,357)	327,274
Provision for unearned premiums			
At 1 January 2018	141,707	(42,525)	99,182
Increase in the period	149,959	(45,887)	104,072
Release in the period	(141,187)	42,462	(98,725)
Exchange differences	(671)	69	(602)
At 31 December 2018	149,808	(45,881)	103,927
Claims outstanding			
At 1 January 2017	451,199	(81,083)	370,116
Cash (paid)/received for claims settled in the year	(127,491)	34,240	(93,251)
Change in liabilities/reinsurance assets			
- arising from current year claims	130,199	(31,343)	98,856
- arising from prior year claims	(33,467)	10,168	(23,299)
- change in discount rate	1,793	-	1,793
Exchange differences	(836)	418	(418)
At 31 December 2017	421,397	(67,600)	353,797
Provision for unearned premiums			
At 1 January 2017	134,646	(38,877)	95,769
Increase in the period	141,789	(42,523)	99,266
Release in the period	(134,302)	38,852	(95,450)
Exchange differences	(426)	23	(403)
At 31 December 2017	141,707	(42,525)	99,182

Notes to the financial statements

29 Provisions for other liabilities and contingent liabilities

Group	Regulatory and legal provisions £000	Contingent consideration £000	Other provisions £000	Total £000
At 1 January 2018	3,929	-	1,670	5,599
Acquisitions	-	67	-	67
Additional provisions	3,569	-	115	3,684
Used during year	(3,625)	-	-	(3,625)
Not utilised	(502)	(4)	-	(506)
Exchange differences	-	-	(3)	(3)
At 31 December 2018	3,371	63	1,782	5,216
Current	2,873	36	7	2,916
Non-current	498	27	1,775	2,300
Parent				
At 1 January 2018	3,929	-	1,583	5,512
Additional provisions	3,569	-	105	3,674
Used during year	(3,625)	-	-	(3,625)
Not utilised	(502)	-	-	(502)
At 31 December 2018	3,371	-	1,688	5,059
Current	2,873	-	-	2,873
Non-current	498	-	1,688	2,186

Regulatory and legal provisions

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

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

Regulatory and legal provisions

The provision for contingent consideration relates to the acquisition of certain assets of Equicover Limited as disclosed in note 16.

Other provisions

The provision for other costs relates to costs in respect of dilapidations.

Notes to the financial statements

30 Deferred tax

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

Group	Unrealised gains on investments £000	Net retirement benefit assets £000	Equalisation reserve £000	Other differences £000	Total £000
At 1 January 2017	30,458	(5,505)	3,784	(2,074)	26,663
Charged/(credited) to profit or loss	3,336	(507)	(790)	293	2,332
Charged to other comprehensive income	-	7,559	-	97	7,656
Exchange differences	2	-	-	1	3
At 31 December 2017	33,796	1,547	2,994	(1,683)	36,654
Credited to profit or loss	(6,244)	(523)	(790)	(66)	(7,623)
Charged to other comprehensive income	-	729	-	95	824
Exchange differences	14	-	-	47	61
At 31 December 2018	27,566	1,753	2,204	(1,607)	29,916
Parent					
At 1 January 2017	29,693	(5,503)	3,784	(173)	27,801
Charged/(credited) to profit or loss	3,115	(507)	(790)	(95)	1,723
(Credited)/charged to other comprehensive income	-	7,559	-	97	7,656
Exchange differences	-	-	-	(16)	(16)
At 31 December 2017	32,808	1,549	2,994	(187)	37,164
Credited to profit or loss	(5,534)	(523)	(790)	(53)	(6,900)
Charged to other comprehensive income	-	729	-	95	824
Exchange differences	-	-	-	(18)	(18)
At 31 December 2018	27,274	1,755	2,204	(163)	31,070

The equalisation reserve was previously required by law and maintained in compliance with insurance companies' regulations. Transfers to this reserve were deemed to be tax deductible under legislation that applied prior to 1 January 2016 and gave rise to deferred tax. With effect from the implementation date of Solvency II, 1 January 2016, these reserves become taxable over 6 years under the transition rules set out by HM Treasury.

Notes to the financial statements

30 Deferred tax (continued)

Certain deferred tax assets and liabilities have been offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2018 Group £000	2018 Parent £000	2017 Group £000	2017 Parent £000
Deferred tax liabilities	31,665	31,070	38,375	37,164
Deferred tax assets	(1,749)	-	(1,721)	-
	29,916	31,070	36,654	37,164
Current	1,641	3,390	(974)	790
Non-current	28,275	27,680	37,628	36,374

The Group has unused tax losses of £15,832,000 (2017: £16,952,000) arising from life business and capital transactions, which are available for offset against future profits and can be carried forward indefinitely. No deferred tax asset has been recognised in respect of these losses due to the unpredictability of future profit streams.

31 Other liabilities

	2018 Group £000	2018 Parent £000	2017 Group £000	2017 Parent £000
Creditors arising out of direct insurance operations	1,183	416	1,693	794
Creditors arising out of reinsurance operations	23,764	15,351	20,662	10,874
Derivative liabilities	2,306	2,306	-	-
Creditors arising from broking activities	3,992	-	4,733	-
Other creditors	15,816	9,738	16,318	8,901
Amounts owed to related parties	4	54	7	83
Accruals	24,854	19,390	23,450	18,659
	71,919	47,255	66,863	39,311
Current	71,560	47,255	66,533	39,311
Non-current	359	-	330	-

Derivative liabilities are in respect of equity futures contracts and are detailed in note 23.

Deferred income of the Group and Parent is a current liability in both the current and prior year.

32 Commitments

Capital commitments

At the year end, the Group and Parent had capital commitments of £8,712,000 relating to computer software (2017: £nil) and £1,207,000 relating to furniture, fittings and equipment (2017: £nil).

Operating lease commitments

Amounts receivable

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

	2018 Group £000	2018 Parent £000	2017 Group £000	2017 Parent £000
Within 1 year	8,000	8,000	7,764	7,764
Between 1 & 5 years	25,914	25,914	26,860	26,860
After 5 years	32,478	32,478	37,799	37,799
	66,392	66,392	72,423	72,423

Notes to the financial statements

32 Commitments (continued)

	2018		2017	
	Group	Parent	Group	Parent
	£000	£000	£000	£000
	3,430	2,715	3,605	2,452
	10,743	8,929	11,368	8,508
Within 1 year				
Between 1 & 5 years				
After 5 years				
	5,432	4,587	3,010	2,510
	19,605	16,231	17,983	13,470
Operating lease rentals charged to profit or loss during the year	3,428	2,201	3,440	2,280
Total future minimum sublease payments expected to be received under non-cancellable subleases	506	506	-	-

33 Related undertakings

Ultimate parent company and controlling party

The Company is a wholly-owned subsidiary of Ecclesiastical Insurance Group plc. Its ultimate parent and controlling company is Allchurches Trust Limited. Both companies are incorporated and operate in the United Kingdom and copies of their financial statements are available from the registered office as shown on page 236. The parent companies of the smallest and largest groups for which group financial statements are drawn up are Ecclesiastical Insurance Office plc and Allchurches Trust Limited, respectively.

Related undertakings

The Company's interest in related undertakings at 31 December 2018 is as follows:

Company	Company Registration Number	Share Capital	Holding of shares by		
			Company	Group	Activity
Subsidiary undertakings					
<i>Incorporated in the United Kingdom</i>					
Ecclesiastical Financial Advisory Services Limited *	2046087	Ordinary	100%	-	Independent financial advisory
Ecclesiastical Life Limited *	0243111	Ordinary	100%	-	Life insurance
EdenTree Investment Management Limited *	2519319	Ordinary	100%	-	Investment management
E.I.O. Trustees Limited * ^	0941199	Ordinary	100%	-	Trustee company
Ecclesiastical Group Healthcare Trustees Limited *	10988127	Ordinary	100%	-	Trustee company
South Essex Insurance Brokers Limited *	6317314	Ordinary	-	100%	Insurance agents and brokers
South Essex Insurance Holdings Limited *	6317313	Ordinary	100%	-	Investment holding company
<i>Incorporated in Australia</i>					
Ansvar Insurance Limited **	007216506	Ordinary	100%	-	Insurance
Ansvar Risk Management Services Pty Limited**	623695054	Ordinary	100%	-	Risk management services
Ansvar Insurance Services Pty Limited ** †	162612286	Ordinary	-	100%	Dormant company

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

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

^ Exempt from audit under s480 of the Companies Act 2006

† Exempt from audit

Notes to the financial statements

34 Related party transactions

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

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

	Ecclesiastical Insurance Group plc £000	Subsidiaries £000	Other related parties £000
2018			
Group			
Trading, investment and other income, including recharges, and amounts received	368	-	1,736
Trading, investment and other expenditure, including recharges, and amounts paid	259	-	2,033
Amounts owed by related parties	29,562	-	1,157
Amounts owed to related parties	-	-	61,276
Parent			
Trading, investment and other income, including recharges, and amounts received	368	5,751	498
Trading, investment and other expenditure, including recharges, and amounts paid	259	3,685	872
Amounts owed by related parties	29,562	4,609	1,140
Amounts owed to related parties	-	2,249	1

2017 (restated)			
Group			
Trading, investment and other income, including recharges, and amounts received	273	-	1,683
Trading, investment and other expenditure, including recharges, and amounts paid	6,229	-	2,930
Amounts owed by related parties	29,458	-	246
Amounts owed to related parties	-	-	64,923
Parent			
Trading, investment and other income, including recharges, and amounts received	273	4,036	434
Trading, investment and other expenditure, including recharges, and amounts paid	6,229	3,701	809
Amounts owed by related parties	29,458	5,001	244
Amounts owed to related parties	-	2,379	1

During the year, the Company received premiums, commission and reinsurance recoveries via a related party insurance agency amounting to £187,000 (2017: £1,919,000) and paid reinsurance protection, commission and claims amounting to £340,000 (2017: £2,148,000).

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

Amounts owed to related parties by the Group and by the Parent include insurance liabilities which are included in note 28.

Transactions and services within the Group are made on commercial terms. With the exception of some insurance liabilities, amounts outstanding between Group companies are unsecured, are not subject to guarantees, and will be settled in cash. No provisions have been made in respect of these balances.

The remuneration of the directors is disclosed in the Group Remuneration Report in the Corporate Governance section of this report. The remuneration of the key management personnel of the Group is disclosed in note 13.

Charitable grants paid to the Group's ultimate Parent undertaking are disclosed in note 15. Contributions paid to and amounts received from the Group's defined benefits schemes are disclosed in note 19.

Notes to the financial statements

35 Reconciliation of Alternative Performance Measures

The Group uses alternative performance measures (APM) in addition to the figures which are prepared in accordance with IFRS. The financial measures included in our key performance indicators are set out on page 50: regulatory capital, combined operating ratio (COR), net expense ratio (NER) and net inflows are APM. These measures are commonly used in the industries we operate in and we believe provide useful information and enhance the understanding of our results.

Users of the accounts should be aware that similarly titled APM reported by other companies may be calculated differently. For that reason, the comparability of APM across companies might be limited.

In line with the European Securities and Markets Authority guidelines, we provide a reconciliation of the COR and NER to its most directly reconcilable line item in the financial statements. Regulatory capital and net inflows to funds managed by Ecclesiastical Insurance Office plc's subsidiary, EdenTree Investment Management Limited, do not have an IFRS equivalent. Net inflows are the difference between the funds invested (gross inflows) less funds withdrawn (redemptions) made during the year by third parties in a range of funds EdenTree Investment Management Limited offers. Regulatory capital is covered in more detail in note 4(i).

Group	2018						
	Insurance		Inv'mnt return	Inv'mnt mngt	Broking and Advisory	Corporate costs	Total
	General £000	Life £000					
Revenue							
Gross written premiums	356,950	21	-	-	-	-	356,971
Outward reinsurance premiums	(137,640)	-	-	-	-	-	(137,640)
Net change in provision for unearned premiums	(5,241)	-	-	-	-	-	(5,241)
Net earned premiums	[1] 214,069	21	-	-	-	-	214,090
Fee and commission income	[2] 41,346	-	-	12,601	9,049	-	62,996
Other operating income	1,039	-	-	-	-	-	1,039
Net investment return	-	1,573	1,600	13	808	-	3,994
Total revenue	256,454	1,594	1,600	12,614	9,857	-	282,119
Expenses							
Claims and change in insurance liabilities	(112,222)	349	-	-	-	-	(111,873)
Reinsurance recoveries	26,188	-	-	-	-	-	26,188
Fees, commissions and other acquisition costs	[3] (65,687)	(15)	-	(943)	299	-	(66,346)
Other operating and administrative expenses	[4] (75,543)	(286)	(2,889)	(10,730)	(8,111)	[5] (16,829)	(114,388)
Total operating expenses	(227,264)	48	(2,889)	(11,673)	(7,812)	(16,829)	(266,419)
Operating profit	[6] 29,190	1,642	(1,289)	941	2,045	(16,829)	15,700
Finance costs	(329)	-	-	-	-	-	(329)
Profit before tax	28,861	1,642	(1,289)	941	2,045	(16,829)	15,371
Underwriting profit	[6] 29,190						
Combined operating ratio	86.4%						
Net expenses (= [2] + [3] + [4] + [5])	[7] (116,713)						
Net expense ratio	55%						

The underwriting profit of the Group is defined as the operating profit of the general insurance business.

The Group uses the industry standard net COR as a measure of underwriting efficiency. The COR expresses the total of net claims costs, commission and underwriting expenses as a percentage of net earned premiums. It is calculated as ([1] - [6]) / [1]).

The NER expresses total underwriting and corporate expenses as a proportion of net earned premiums. It is calculated as - [7] / [1].

Notes to the financial statements

35 Reconciliation of Alternative Performance Measures (continued)

Group	2017						
	Insurance		Inv'mnt return	Inv'mnt mngt	Broking and Advisory	Corporate costs	Total
	General £000	Life £000					
Revenue							
Gross written premiums	342,889	28	-	-	-	-	342,917
Outward reinsurance premiums	(129,387)	-	-	-	-	-	(129,387)
Net change in provision for unearned premiums	(6,318)	-	-	-	-	-	(6,318)
Net earned premiums	[1] 207,184	28	-	-	-	-	207,212
Fee and commission income	[2] 40,551	-	-	11,686	8,627	-	60,864
Other operating income	1,935	-	-	-	-	-	1,935
Net investment return	-	2,739	68,839	(41)	757	-	72,294
Total revenue	249,670	2,767	68,839	11,645	9,384	-	342,305
Expenses							
Claims and change in insurance liabilities	(117,910)	(2,003)	-	-	-	-	(119,913)
Reinsurance recoveries	32,196	-	-	-	-	-	32,196
Fees, commissions and other acquisition costs	[3] (64,619)	(16)	-	(982)	464	-	(65,153)
Other operating and administrative expenses	[4] (72,271)	(374)	(3,204)	(8,946)	(7,565)	[5] (14,783)	(107,143)
Total operating expenses	(222,604)	(2,393)	(3,204)	(9,928)	(7,101)	(14,783)	(260,013)
Operating profit	[6] 27,066	374	65,635	1,717	2,283	(14,783)	82,292
Finance costs	(96)	-	-	-	-	-	(96)
Profit before tax	26,970	374	65,635	1,717	2,283	(14,783)	82,196
Underwriting profit	[6] 27,066						
Combined operating ratio	86.9%						
Net expenses (= [2] + [3] + [4] + [5])	[7] (111,122)						
Net expense ratio	54%						

Section Five

Other Information

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Directors, executive management and company information

Directors	* J. F. Hylands FFA <i>Chairman</i> T. J. Carroll BA, MBA, FCII * R. D. C. Henderson FCA * M. C. J. Hews BSc (Hons), FIA <i>Group Chief Executive</i> A. J. McIntyre MA, ACA, FRCO * C. J. G Moulder MA, FCA * C. H. Taylor BSc (Hons) Banking and International Finance * S. J. Whyte MC Inst. M, ACII <i>Deputy Group Chief Executive</i> * The Very Reverend C. L. Wilson <i>Senior Independent Director</i>
Group Management Board	D. P. Cockrem, MA, FCA Group Chief Financial Officer M. C. J. Hews BSc (Hons), FIA Group Chief Executive N. M. Louth-Davies MA D. R. Moore BA (Hons), MBA C. M. Taplin BSc (Hons), MSc, MBA A. J. Titchener LLB (Hons) S. J. Whyte MC Inst. M, ACII Deputy Group Chief Executive
Company Secretary	Mrs R. J. Hall FCIS
Registered and Head Office	Beaufort House Brunswick Road Gloucester GL1 1JZ Tel: 0345 777 3322
Company Registration Number	24869
Investment Management Office	24 Monument Street London EC3R 8AJ Tel: 0800 358 3010
Legal advisers	Burges Salmon LLP Bristol Charles Russell Speechlys LLP London DAC Beachcrofts LLP Leeds and London Gowling WLG (UK) LLP London Harrison Clark Rickerbys LLP Cheltenham Matheson Dublin McDowell Purcell Solicitors Dublin Pinsent Masons LLP Birmingham * Non-Executive Directors

Directors, executive management and company information

Auditor	Deloitte LLP London
Registrar	Computershare Investor Services plc The Pavilions Bridgwater Road Bristol BS13 8AE

United Kingdom regional centres

Central and South West	Office:	12th Floor Alpha Tower Suffolk Street Queensway Birmingham B1 1TT
	Tel:	0345 605 0209
London and South East	Office:	24 Monument Street London EC3R 8AJ
	Tel:	0345 608 0069
North	Office:	St Ann's House St Ann's Place Manchester M2 7LP
	Tel:	0345 603 7554

United Kingdom business division and international branches

Ansvar Insurance Business Division	Managing Director: Office:	R. Lane TD, BA, FCII, MCMI, MCGI Ansvar House 31 St. Leonards Road Eastbourne, East Sussex BN21 3UR 0345 60 20 999
	Tel:	
Canada Branch	Deputy Group Chief Executive, Ecclesiastical Insurance and General Manager and Chief Agent: Chief Office:	S. J. Whyte MC Inst M, ACII 2200-100 Wellington St W, TD West Tower P.O. Box 307 Toronto, Ontario M5K 1K2
- Eastern Region:	Regional Vice President:	K. Biermann BBA, CIP 100 Eileen Stubbs Avenue Suite 201 Dartmouth, Nova Scotia B3B 1Y6
- Western Region:	Regional Vice President:	K. Webster CRM, FCIP Suite 521, 10333 Southport Road S.W. Calgary, Alberta T2W 3X6
- Pacific Region:	Regional Vice President:	N de Souza Jensen BA, CIP Suite 1713, Three Bentall Centre 595 Burrard Street, Box 49096 Vancouver, British Columbia V7X 1G4
- Central Region and National Accounts:	Regional Vice President:	R. Jordan BBA, CRM, FCIP 2200-100 Wellington St W, TD West Tower P.O. Box 307 Toronto, Ontario M5K 1K2
Ireland Branch	Managing Director: Office:	D. G. Lane B.Comm (Hons), Certified Insurance Director 2nd Floor, Block F2 Eastpoint Dublin 3, DO3 T6P8

Insurance subsidiaries and agencies

Ansvar Insurance Limited	Chief Executive Officer: Head Office:	W. R. Hutcheon MBA, GAICD, Fellow ANZIIF (CIP) Level 5 1 Southbank Boulevard Southbank Melbourne VIC 3006
Ecclesiastical Life Limited	Head Office:	Beaufort House Brunswick Road Gloucester GL1 1JZ
Ecclesiastical Underwriting Management Limited	Office:	Beaufort House Brunswick Road Gloucester GL1 1JZ
South Essex Insurance Brokers Limited	Director: Office: Tel:	B. W. Fehler South Essex House, North Road South Ockendon Essex RM15 5BE 01708 850000

Notice of meeting

NOTICE is hereby given that the Annual General Meeting of Ecclesiastical Insurance Office plc will be held at Beaufort House, Brunswick Road, Gloucester, GL1 1JZ on Thursday, 13th June 2019 at 12:35pm for the following purposes:

Ordinary business

1.

To receive the Report of the Directors and Accounts for the year ended 31st December 2018 and the report of the auditors thereon.
2.

To re-elect Mr T. J. Carroll as a director.*
3.

To re-elect Mr R. D. C. Henderson as a director.*
4.

To re-elect Mr M. C. J. Hews as a director.*
5.

To re-elect Mr A. J. McIntyre as a director.*
6.

To re-elect Mr C. J. G. Moulder as a director.*
7.

To re-elect Mrs C. H. Taylor as a director.*
8.

To re-elect Mrs S. J. Whyte as a director.*
9.

To re-elect The Very Revd C. L. Wilson as a director.*
10.

To elect Mr F. X. Boisseau as a director.
11.

To elect Mr A. Winther as a director.
12.

To consider the declaration of a dividend.
13.

To re-appoint Deloitte LLP as auditors and authorise the directors to fix their remuneration.

By order of the Board

Mrs R. J. Hall, Secretary
19th March 2019

* Brief biographies of the directors seeking re-election are shown on pages 92 to 94 of the 2018 Annual Report. All non-executive directors seeking re-election have been subject to formal performance evaluation by the Chairman who is satisfied that the performance of each non-executive director is effective and sufficient time has been spent on the Company's affairs.

Only a member holding ordinary shares, or their duly appointed representative(s), is entitled to attend, vote and speak at the annual general meeting.

A member holding ordinary shares is entitled to appoint a proxy or proxies (who need not be a member of the Company) to exercise all or any of their rights to attend, speak and vote on their behalf at the annual general meeting. Such a member may appoint more than one proxy in relation to the annual general meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member.

Any corporation which is a member holding ordinary shares can appoint one or more corporate representatives who may exercise, on its behalf, all of the same powers as that corporation could exercise if it were an individual member, provided that they do not do so in relation to the same share or shares and that they act within the powers of their appointment.

This notice is sent purely for information to the holders of 8.625% Non-Cumulative Irredeemable Preference shares who are not entitled to attend and vote at the annual general meeting.

Notes

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and waterless printing technology.

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