Ecclesiastical
Annual Report & Accounts
2019

Each day together we are capable of more than you can imagine

Each day we help inspire the thinkers of the future

Each day we help millions of people celebrate their beliefs

Each day we help thousands of charities make a difference

Graham Lacdao © St Paul's Cathedral

Each day we help protect the irreplaceable

Each day we help support the unstoppable

Contents

Section One

About Us

Each day, since the day our business was founded in 1887, we've wanted to do business differently. To work in a way that makes a difference to society and to the lives of others.

Owned by a charity, we're a commercial business with a purely charitable purpose. We manage a successful, ethically run portfolio of businesses and give a significant proportion of our profits to our owner, Allchurches Trust, which donates independently to good causes. We make our own considerable donations. And we help 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. This has 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.

Each day we are capable of more than you can imagine. Together we're building a movement for good.

Ecclesiastical at a glance

Who we are

An independent, specialist financial services group owned by a charity

132
years' experience

Established in 1887 to provide fire protection to Anglican churches

£100m

Our aim is to give £100m to good causes by the end of 2020 – we've made great progress donating £96.5m so far*

*Cumulative total 2016 – 2019

Award winning

We are proud that our group's people, products and services continue to achieve industry acclaim

One of the UK's largest charitable donors

S&P Rating Excellent

A- Stable
(last affirmed July 2019)

£3.1bn

Funds under management
(£2.7bn in previous year)

What we do

Main insurer for the UK's Grade I listed buildings

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 11th successive year (2009 to 2019)

Leading insurer for the Anglican church

in all our territories

Trusted by independent schools for over 55 years

50,000+

charities and not for profit organisations insured in the UK alone

A leading multi-faith insurer

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

Gold standard Home Insurance

Awarded 1st place Gold Ribbon by Fairer Finance as most trusted provider – 10th time in a row

Trusted to do the right thing

97% +

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

97%

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

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

*Independent survey by FWD

Making a difference

£32.5m

given to charity in 2019

(£18.8m in previous year)

£30m to our charitable owner and £2.5m Ecclesiastical Group giving

Movement for Good

We launched our biggest ever giving campaign – through our Movement for Good Awards we gave £1 million to help change people's lives.

Over 7,000 charities have benefitted from our giving

60%+

of our employees volunteer

A different kind of business

We are a financial services group that exists to give its profits to charity

Best for developing young people

Ecclesiastical Canada recognised as Top 100 Employer for Young people for the 8th consecutive year

83%

of staff are positive about the statement 'I am proud to work for this company'

Leading the way in Health and Safety

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

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

Our financial performance

£73.3m

profit before tax

(£15.4m in previous year)

£394.0m

gross written premium

(£357.0m in previous year)

91.1%

combined operating ratio

(86.4% in previous year)

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.

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

Ecclesiastical UK

Cracking down on cyberbullying

For children growing up in a digital world, the threat of cyberbullying is ever-present. So as a leading insurer of schools, we felt it was our responsibility to take action. Our free lesson kit, Cyber Ready, was designed to help teachers show their students how to stay safe online and was intended as an extension to existing teaching activities.

In creating the kit, it was important to fully understand the problems and issues children faced. So we spoke to pupils, parents, and teachers to build up a clear picture. From talking to teachers, it was soon obvious that many teaching resources were out of date and unappealing. Teachers felt under pressure to meet 2020 government-led safety measures to protect children from online harm.

We took our proposed solution into the classroom to get frank, constructive feedback before refining the final design. By taking a collaborative approach and coming up with innovative problem-solving techniques, our lesson plan succeeded in engaging pupils and driving home important safety messages. In recognition of its success, Cyber Ready won the CIR 2019 Risk Management Award for Public Safety, demonstrating our understanding of the challenges faced by schools and our commitment to helping solve them.

"I've taught internet safety over the last two decades. As a busy classroom teacher, it has always been a tough task to keep up with constant technological advances, as well as ensure that you are as knowledgeable about the benefits and risks of online safety. To support yourself and your pupils, this resource by Ecclesiastical Insurance provides a free toolkit for primary and secondary teachers."

@TeacherToolkit

"I love this resource. My class had been having safeguarding problems outside of school using WhatsApp. This was a great platform to sort out and share their issues. The resources are ready to use. Saved me lots of time. Thank you."

Primary school teacher
TES Five Star review

Section Two

Strategic Report

Chairman's Statement

My first year

This is my first annual statement as Chairman and it's been a pleasure and privilege to have led the Group following my appointment in March 2019. Over the past year, I've enjoyed visiting our businesses across the UK and also in Canada and Ireland, and am looking forward to visiting our Australia business this year. I've had the opportunity to meet some of our customers and talented colleagues and I have been thoroughly impressed to see, at firsthand, just how much our customers value our expertise. We put customers at the heart of everything we do and because of that, I am delighted to say it's been another successful year. My heart-felt thanks to everyone who has worked so hard to deliver these significant financial results that enable us to recycle our profits back into the communities in which we do our business. The more we make, the more we can give away.

A strong set of results

It is our unique charitable purpose that makes us special. Our charitable ownership continuously influences the way we do our business and our approach to growth. We believe in taking the long-term view and we believe growth must be sustainable. It is a business model that works, and I am delighted that the Group's strong performance has allowed us to donate £30m to our charitable owner, and over £2m to the good causes we support directly, through our Corporate Social Responsibility programme. We ended 2019 having given over £96m in total to good causes since 2016, and are now only a short way from reaching our £100m target by the end of 2020.

Achievements and reflections

In the past few years, the Group has been through a period of change. This change programme has continued to strengthen our core insurance business as well as expand our other portfolios and specialisms. In 2019, our immediate parent, Ecclesiastical Insurance Group plc, expanded the broking business with investments in Robertson-McIsaac and Lloyd & Whyte, which both offer niche specialist insurance services.

In late 2020, we will relocate our Gloucestershire head office to a purpose-built unit which will house all of our people in the area. I am pleased that sustainability, energy efficiency and environmental impacts have been a significant consideration for this development.

We have also invested in the development of a new system for the UK General Insurance business to provide our customers and brokers with an enhanced experience and give us better processes and capacity.

We ended 2019 having given over £96m in total to good causes since 2016, and are now only a short way from reaching our £100m target by the end of 2020.

We believe we are also proving that a different way of doing business is possible.

Board developments and governance

In 2019, we were delighted to welcome Denise Cockrem, the Group's Chief Financial Officer, as an Executive Director to the Board. We were also delighted to welcome Angus Winther and Francois-Xavier Boisseau to the Board as Non-Executive Directors during the year and Neil Maidment as a Non-Executive Director in January 2020. Their diversity of skills and experience across the insurance and financial services sector adds to the constructive challenge and support the Board provides to the executive management team.

The Board and I were also delighted that Tim Carroll, who has served on the Board since 2013, has now taken up the position of Chairman of our charitable parent company, Allchurches Trust Limited. We thank Tim for his service to the Ecclesiastical Group and look forward to working with him in his new role.

We are also committed to supporting our people right across the business, at every level and from every background, so we can develop a sustainable pool of talent and allow them to develop their careers with us.

The future

As the Board looks towards the next chapter for Ecclesiastical, it is especially critical that we respond to broader issues of sustainability and climate change. Our people are often on the frontline of flooding and other natural catastrophes, and it has never been more important to focus on our risk management services and try to prevent disaster before it happens. Given the depth of our expertise, we are well-placed to play our part in making a better, safer future for all. Added to that, we believe we are also proving that a different way of doing business is possible.

A way that makes returns beyond conventional shareholders to a broader, diverse group of stakeholders, including the most vulnerable and needy in society. Nothing would please us more than to encourage others to join us and create a movement for good.

David Henderson
Chairman

'It is our unique charitable purpose that makes us special. Our charitable ownership continuously influences the way we do our business and our approach to growth.'

Ecclesiastical UK

Preservation for the next generation

As the leading insurer of Grade I listed buildings in the UK, we know how important traditional craft skills are in keeping these unique buildings looking their best. That's why we've pledged £225,000 to The Prince's Foundation over three years to enable 36 students to take part in the charity's Building Craft Programme (BCP).

For more than ten years we've insured Dumfries House in Ayrshire, headquarters of The Prince's Foundation. We've been supporting their Building Craft Programme for the last two years.

Established to help preserve valuable craft skills, which are gradually being lost, the BCP takes place at The Prince's Foundation's training facilities in Shoreditch, London and Dumfries House, Ayrshire – where students complete a live build project. Many of the skills, such as stonemasonry and lime plastering, aren't taught in college but are learnt through years of exposure working alongside masters of the art.

After the programme, most students secure work in the heritage sector or go on to undertake further training, with around 90% starting careers in craft skills immediately after completing the course.

The Prince's Foundation is giving students a unique opportunity, equipping them with the craft skills and techniques needed to help preserve some of our irreplaceable buildings for generations to come.

"Ecclesiastical's support will help us to continue to equip our young craftspeople with the education and skills required to design, build and preserve our local communities."

Simon Sadinsky, Deputy Executive Director of Education
The Prince's Foundation

"There's only so much you can get from the literature, it's the firsthand experience that is so priceless. On this course they really take you under their wing."

Esme Walker, Student
Prince's Foundation
Building Craft Programme

A trusted business

Here are a selection of the awards our Group received for the way we do business

Our UKGI business won

- **Commercial Lines Team**
- **Rising Star**

at the Insurance Post Claims Awards

Top Employer for Young People

Ecclesiastical Canada was awarded Top Employer for Young People status for the 8th consecutive year

Best Ethical Investment Provider

EdenTree won Moneyfacts Best Ethical Investment Provider award for the 11th year running

SEIB won **Personal Lines Broker of the Year** at the British Claims Awards

Ecclesiastical Canada was recognised as a **Greater Toronto Top Employer**

Top of the Fairer Finance tables

For the 10th time running, Ecclesiastical UK Home Insurance was once again placed top for customer trust

Ecclesiastical Canada won the **CNA Canada Award for Excellence in Philanthropy and Community Service**

SEIB won **Insurance Broker of the Year** at the Women in Insurance awards

Our UKGI business won the **Public Safety Award** at the CIR Risk Management Awards

EFAS won Best Firm, South West at the NatWest Local Hero Awards

Chief Executive's Report

A unique business with a clear and caring purpose
In the world of financial services, Ecclesiastical treads a very different path. Over 130 years ago, our founders created a commercial company with a charitable purpose. Today, we are one of the largest corporate donors to charity in the UK, contributing to thousands of good causes in this country and abroad.

"To work together to be the most trusted and ethical specialist financial services group, giving £100m to charity."

Owned by a charity, we are not driven by the need to grow at any cost in order to satisfy short-term shareholder demands. Instead we are driven to build a sustainable, ethical, values-driven business that supports and cares for its customers, their communities and society as a whole. We do this by using our specialist expertise to provide products, cover and service that customers value and trust.

We seek to provide insurance that you can believe in rather than cheap insurance that may not provide the cover you expected at your time of need.

It is for this reason that we continue to be trusted to protect and preserve so much of the country's irreplaceable heritage and history, covering many of the nation's most iconic palaces, castles, estates, World Heritage Sites, churches and cathedrals. In fact, we are a leading insurer of Grade I listed buildings in England, including places like St Paul's Cathedral and Westminster Abbey that are recognised by millions of people around the world.

Building a Movement for Good, thanks to your support

In 2016, we announced a new strategic goal for the Group that built on our ethical foundations. It was clear, stretching and inspirational.

"To work together to be the most trusted and ethical specialist financial services group, giving £100m to charity."

Thanks to the incredible support of our customers, brokers, business partners, employees and all our supporters, I am pleased to report that in 2019, together, we donated over £32m to charities. This takes our total donations to over £96m and we have now supported over 7,000 charities worldwide. With this wide-ranging support, we are now within short reach of our £100m target and hope to achieve it by the end of 2020.

Of course, whilst it is easy to focus on the impressive numbers that headline this achievement, it is the positive impact these donations have made to so many people's lives which is truly inspiring. We are very proud to have supported charities tackling so many different and important issues. Their work is lifting people out of poverty, making society more inclusive and strengthening communities. But their work also shares a common aim – to change lives for the better and make a positive impact.

Looking at all the charities we've supported, and the many thank you letters received, is a humbling and uplifting experience. It is an experience that inspires us all to get behind our charitable purpose and build and widen our movement for good so that more people can benefit.

Always learning from our customers

As a business, we strive to do the right thing; it is part of our DNA. But we are only human and, given the breadth and depth of our global Group, it is inevitable there will be times – hopefully few and far between – when we fall short of our own high standards. When this happens, it is important that we learn from this and recognise where we can do things better.

Over the years, this approach of continuous learning has led to exceptionally high UK customer satisfaction levels, at 97%-99% across all sectors.

Overall, we successfully deal with thousands of claims every year and I am pleased to report that 98% of surveyed customers were satisfied with how we handled their claim last year, and 93% being very and extremely satisfied, which is consistent with previous years.

However, there have been a few claims relating to historical sexual abuse over 30 years ago, which have been difficult to handle to the satisfaction of all concerned.

I am speaking here of claims for physical and sexual abuse, which represent a very small percentage of our total claims (less than 0.4%), but are particularly traumatic and challenging for victims and survivors and must therefore be conducted with sensitivity, empathy and compassion. Sadly, for a very small number of survivors, the experience of bringing a claim has been a difficult and painful process, not helped by the adversarial nature of the civil justice system within which we must all work.

To this end, we welcome the work of the Independent Inquiry into Child Sexual Abuse, IICSA, and have contributed positively to the Inquiry's consideration of how the civil justice system can better deliver reparations to victims and survivors. Ecclesiastical works hard to settle claims fairly on a full and final basis with the agreement of its claimants and with the benefit of such claimants normally having received independent legal advice. While we do not always get everything right, Ecclesiastical Insurance Office itself strives for the highest standards in the industry and we were the first insurer to introduce and publish clear guiding principles having obtained survivors input. We have also taken a lead in working with a number of claimant solicitors to improve the claims experience within the current civil justice system and have introduced several positive changes including offering the services of psychological rehabilitation specialists Moving Minds to offer counselling support for every claimant.

That said, it is clearly impossible to turn back time and undo the damage of childhood abuse, and so we all continue to learn how best to support and help those who have experienced it within the Church or elsewhere. Moreover, we encourage and support the Church and many of our customers on the implementation of strong safeguarding practices so that childhood abuse is prevented in the first place. Striving for continual improvement is essential for any business, but is vital for one with a purpose like ours. I am delighted that these efforts have led to external recognition on a wide front.

Delivering for society and our customers

We recognise there remains a lack of trust in businesses, and every year the leading global trust survey shows the financial services sector as having the lowest level of trust[1]. Against this background, I am especially pleased that some of our businesses were positively recognised by independent bodies for their exceptional contributions. Of note, in 2019:

- Ecclesiastical was rated as the 'Most Trusted' home insurer in the UK by Fairer Finance. It also scored top for customer happiness
- Ecclesiastical won the 'Public Safety Award' at the CIR Risk Management Awards for their Cyber Ready toolkit
- Our UK General Insurance business claimed two Insurance Post 'Claims Awards', recognising the exceptional service and lengths our teams go to in order to ensure our customers are in safe hands
- Ecclesiastical Canada was recognised as a 'Top Employer in Greater Toronto' and for the 8th consecutive year as one of Canada's 'Top Employers for Young People'
- EdenTree, our pioneering Investment Management business picked up the Moneyfacts 'Best Ethical Investment Provider' for the 11th year running
- Ecclesiastical Financial Advisory Services was recognised as the 'Best Firm, South West' in the Local Hero Mortgage Awards
- SEIB, our broking business, won 'Personal Lines Broker of the Year' at the British Claims Awards.

[1] 2019 Edelman Trust Barometer Global Report

> We continued to focus on delivering profits that are sustainable for the long-term, so we can continue to deliver our charitable purpose.

And recognising our focus is on more than just providing outstanding service to our customers:

- Ecclesiastical won the 'Best Corporate Communications Campaign' and 'Best Low Budget Campaign' for the Movement for Good Awards PR campaign at the CIPR Awards
- Ecclesiastical Canada won 'Excellence in Philanthropy and Community Service' at the Insurance Business Awards

Of course, awards such as these only transpire following years and years of focus by dedicated individuals working hard to do the right thing. A few deserve a special mention this year:

- Our SEIB Deputy CEO was awarded 'Insurance Broker of the Year' at the Women in Insurance Awards
- Our EdenTree Chief Investment Officer once again made it to the 'FE Alpha Manager Hall of Fame' for long-term performance and consistency
- One of our talented claims team won the 'New Professional of the Year' award from the Chartered Insurance Institute.

The trust placed in us is not something we take for granted and we will continue to invest and work hard to ensure our customers receive exceptional service and performance.

A sustainable and resilient business

I am pleased to report that we concluded 2019 in a position of financial strength, reporting a pre-tax profit of £73.3m (2018: £15.4m) and have benefitted from the more favourable investment markets in 2019. This robust performance has not only enabled us to make a £30m charitable grant, it has further strengthened our capital position which provides us with both security today and flexibility for the future.

Taking a long-term perspective, together with maintaining our strong solvency ratio, continues to enable us to hold a greater proportion of higher-risk investment assets which are designed to deliver greater returns. Notwithstanding the uncertainty in the external environment which affected the markets during the latter parts of 2018 and the majority of 2019, our long-term investment approach remained consistent, resulting in investment income in the year of £34.8m (2018: £35.3m) and fair value gains of £52.1m (2018: fair value losses of £35.4m). Underwriting results in the year were strong across the Group at £20.0m (2018: £29.2m) and reflected the anticipated reduction in reserve releases compared with prior year.

Our diverse portfolio of companies, not least in the core insurance businesses, have supported our objective for delivering sustainable and profitable growth for the long term.

Group Gross Written Premium (GWP) has grown 10.4% to £394m (2018: £357m). During the year, we continued to focus on delivering profits that are sustainable for the long term, so we can continue to deliver our charitable purpose.

Our strategy for a sustainable future

Over the last few years, we have made good progress on our journey to become the most trusted and ethical specialist financial services group and have given significantly to good causes. We empowered and invested in our people who have transformed the Group with an ambitious change programme, which continues to gain momentum. As such, we now enter 2020 from a position of strength. We still have our sights firmly set on reaching £100m to charity in 2020 and believe we are well positioned to capture the opportunities that lie ahead.

Our depth of expertise, reputation and focus on doing the right thing for our customers put us in a position of strength.

A year or so ago, at around the time of our 130th year as 'Ecclesiastical', we took the decision to take a fresh look at our brand. At a time when businesses continue to come under scrutiny for questionable behaviours, we concluded that it has never been so important to celebrate our charitable ownership and the unique business model that differentiates us from others. Over the coming years, while keeping faithful to our origins, we will be introducing some changes to our brand to better reflect the diversity of financial businesses within the Ecclesiastical Group.

In addition to investing in our people and brand, we have also continued to invest in new systems and technology, helping our businesses to innovate with purpose and increase our agility and efficiency. Some of these projects will span over a number of years, not least the development of a new strategic UK General Insurance system which, once live, will help us to provide our customers and brokers with an enhanced experience and give us better processes and capacity.

The insurance market remains a highly competitive one, and we see this continuing. However, we are confident we can continue to confront such challenges as our depth of expertise, reputation and focus on doing the right thing for our customers put us in a position of strength. Coupled with our financial strength and an ethical approach, this provides the foundation on which we will continue to build our business and deliver our vision.

In early 2020, the existence of a new coronavirus, now known as COVID-19, was confirmed and since this time it has spread across the globe and is now characterised by the World Health Organisation as a pandemic. We are managing the impact of COVID-19, utilising business continuity and risk management processes where appropriate. Our capital resources can withstand significant short-term temporary market disruption. Whilst there is the potential for the outbreak to impact on our day to day operations, we have plans in place to ensure that we can continue to provide critical services to our customers. Serving our customers and the health, safety and well-being of our employees will be our priority throughout the duration of the outbreak.

Working together for the greater good

With our £100m charitable target within our near term grasp, we remain energised and inspired to work together for our customers and society.

The progress we have made and the speed we have done it would not be possible were it not for the dedication of our specialist teams worldwide. As such, the Board and I say "Thank you" to our exceptional colleagues who, no matter where they might be in the business, will always put doing what is right for our customers and our charitable purpose at the centre of everything they do. And thank you all for helping those who need it most with your tireless fundraising, volunteering and nomination of good causes.

Moreover, thank you to our customers, brokers and business partners for trusting us with their business and allowing us to champion the many worthwhile causes they care about.

To those who are reading about Ecclesiastical for the first time, I invite you to join us, whether as a colleague, customer or business partner, and experience for yourself how it is possible to do business differently. Because I believe that, together, we are creating something very special – a movement for good that touches and transforms lives in our homes, in our communities, in this country and abroad.

Each day, we each make a small step forward – helping our customers or beneficiaries. Each day, we're building a movement for good. And, together, we are capable of more than you can imagine.

By order of the Board

Mark Hews
Group Chief Executive

'With our £100m charitable target within our near term grasp, we remain energised and inspired to work together for our customers and society.'

Each day, together, we transform lives

We are proud of our ambition to give £100m to good causes by the end of 2020. To date, our Group has given £96.5m in grants and donations, helping to tackle the big issues in society and changing people's lives for the better. Here are some of the people whose lives we have changed. You can read more about these stories in our Impact Report, available on our website www.ecclesiastical.com/impactreport

"I've had the chance to learn from master craftspeople

Esme has benefitted from a Building Crafts Apprenticeship – an initiative to equip students with specialist craft skills, helping to preserve these valuable techniques for future generations. Ecclesiastical UK has supported The Prince's Foundation by pledging £225,000 over three years.

"I've now got a roof over my head for my family

Mark and his family now have a brighter future thanks to the work of Focus Ireland, a charity that aims to prevent families, young people and individuals from becoming homeless. Ecclesiastical Ireland raised over €15,000 to support their vital work.

"I've seen a real difference in our schoolchildren – they're happier and more positive

Tim, a primary school deputy head, has experienced firsthand the noticeable difference made by Ansvar UK's ongoing support to Coram Life Education – a charity dedicated to ensuring that primary school children stay strong and safe in their most formative years.

"I've been able to break down barriers around disability

Christopher has a rare condition called microcephaly. Lycetts has helped to build Christopher's confidence through a work placement – part of their support for specialist education and care charity Learning for Life.

"I've got my life back on track with help from Phoenix

Chris is just one of the many young people Phoenix has helped to become more independent and find their place in life. Ecclesiastical Canada has supported the life-changing work of Phoenix through their impact grant.

"I've seen the darkest sides of life imaginable but Street Talk saved me

Amina* is a victim of trafficking and just one of the women helped by charity Street Talk, a vital counselling and art therapy service, which received a £10,000 grant from our ethical investment business EdenTree.

*Name changed to protect 'Amina'.

"I've helped give homeless girls and their babies a safe place to call home

Michelle has seen firsthand the positive benefits of Ansvar Australia's support to the Lighthouse Foundation, a charity dedicated to ending youth homelessness.

"I've stopped feeling dreadfully lonely – now I have something to look forward to

Anne is just one of many older people whose lives have been transformed by Linking Lives UK, a charity working to reduce social isolation, which received a £1,500 grant from Allchurches Trust.

"I've seen what a huge difference education makes to the welfare of horses

Gemma has seen how the £50,000 grant, given by SEIB to The British Horse Society, is boosting their essential equine welfare work – helping to prevent cases of cruelty and neglect. The BHS is dedicated to improving the lives of horses across the UK.

Ansvar UK

Getting a model railway club back on track

Voluntary groups, charities and churches are just some of our areas of specialist insurance knowledge. So, when in May 2019, the Market Deeping Model Railway Club was the victim of extraordinary vandalism – which made headlines worldwide – we went full steam ahead.

The very next day, we appointed our specialist to meet with club representatives and help them with the claim process. It was immediately clear that this was a complex loss. Despite this, we settled the claim in full the same day.

The club had set up for its annual show when vandals struck, destroying the painstakingly built models – one of which had taken 25 years to make. Talking about repairing the damage, Peter Davies, club Chairman, pointed out, 'Some of us simply don't have that amount of time left in our lives'.

To raise additional funds, the club set up a JustGiving page, which raised £107,947 including a £10,000 donation from Sir Rod Stewart. Now established as a registered charity, the Market Deeping Model Railway Club aims to create youth projects, fund new model railway clubs and raise awareness of underinsurance across the modelling world. So, while club members were deeply affected by the vandalism, the incident has enabled them to make a real difference in the community.

"I was staggered by Ansvar's service. We expected to be fighting for settlement based upon our knowledge of the industry, so we were really surprised by how they responded to our claim."

Mr Davies, Chairman
Market Deeping Model Railway Club

"By taking a pragmatic approach to a complex claim, we were able to put the customer at ease and ensure they immediately had access to funds."

Natasha Baugh, Team Leader,
Claims Department, Ansvar UK

Global trends in financial services

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

Trend	Our perspective
Low trust in financial services	The financial services sector continues to rebuild its reputation, with trust in financial services at its highest since the Edelman Trust Barometer (ETB) started tracking by sector. Financial services remains the least trusted global business sector and is significantly less trusted than the technology, automotive and entertainment sectors. Among the global population, trust in financial services has increased over the past five years, reaching a neutral position rather than one of trust. Despite this improvement, only the institutions of media and government are less trusted than financial services. The ETB is now in its twentieth year and recognises that trust is built on competence and ethics. Only non-governmental organisations are seen as ethical due to their focus on protecting the environment, civil and human rights, and addressing poverty, illiteracy and disease. The ETB sees ethical behaviour as being driven by being purpose-driven, honest, with a vision, and fair. There is a clear opportunity for ethical and trusted businesses to demonstrate a proven track record in upholding high standards. Ecclesiastical aims to be the most trusted and ethical financial services group. This distinct positioning is supported by our business model which drives our behaviours – and is evidenced by a high level of trust that is rare amongst financial services businesses. As shown in Strategy in action (page 44) this trusted and ethical ethos is recognised: our UK insurance business is the consumer's most trusted provider for the tenth consecutive time; our investment business has a market-leading reputation both as the best ethical investment provider (receiving this award for the eleventh consecutive year) and as an ethical investor raising awareness of environmental, social and governance issues; and our financial advice business has been recognised as a 'local hero' for their outreach and advocacy.
Geopolitical landscape	In addition to environmental concerns referenced in the previous section, uncertainty and volatility prevail in the wider geopolitical landscape. There is significant turbulence across the world, with challenges ahead: international power-play politics; friction in trade with increased protectionism, tariffs and trade wars; escalating tensions in the Middle East (especially the growing isolation of Iran) and the weakness of Europe. There are concerns around the potential for fragmentation of long-standing alliances with Europe appearing more divided and fragile than at any time in recent history. Governmental approaches to economic and social issues have led to disapproval and public concern, provoking protests around the world. This is magnified by domestic political polarisation, which reinforces feelings of discontent and uncertainty in many countries. Ecclesiastical is mindful of these global trends and all our businesses continue to monitor the global landscape, to understand and respond to the potential impacts from uncertainty.

Trend	Our perspective
Climate change	The world's climate has changed over the past decade, with average temperatures continuing to rise and setting new records. 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. For the first time, the World Economic Forum's Global Risks Report is dominated by the environment, and specifically the climate emergency. The world's leading economists now believe the top five global risks in terms of likelihood are all environmental, with extreme weather events as the top global risk. In terms of impact, climate inaction is the top global risk. There is growing recognition that governments need to do more to respond to these environmental risks. Our responsible investment business, EdenTree, has continued its work on climate change, especially engaging with companies on the risks and opportunities in this area. Our insurance businesses continue to investigate and trial innovative tools to help our customers 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 1.5°C within 12 years; after this, even a 0.5°C increase will increase the risk of extreme weather leading to floods, drought and poverty for hundreds of millions of people. Meeting this ambitious 1.5°C target could also prevent the eradication of corals and suppress the changes to the Arctic which is seeing more pronounced changes than other parts of the globe. In 2019, climate change became significantly more visible with increased momentum to address the challenge. There are clear examples of growing concern: the environmental activist Greta Thunberg was awarded Personality of the Year by Time magazine; children boycotted school across several countries; bridge-blocking protests were organised; and the UK House of Commons approved a vote to declare an environment and climate emergency. This year's Australian bushfires are unprecedented and provide a strong insight into the potential impact on the world if insufficient action is taken by governments and people. The next decade will be crucial in tackling global warming.

Trend | Our perspective

Regulation

In 2019, regulators have continued to focus on governance, culture and accountability. In the UK, further insights into the Insurance Distribution Directive (IDD) were provided in several key reports from the Financial Conduct Authority (FCA). The Senior Managers and Certification Regime (SM&CR) became applicable to insurers in 2018 and to almost all UK regulated firms in 2019.

While the Financial Conduct Authority's regulations only apply in the UK, other regulators have already introduced similar regimes or are consulting on their introduction. These jurisdictions include Australia, Hong Kong, the Republic of Ireland and Singapore. Often, new regulations are implemented first within banks before being extended to other financial services organisations. Strong governance is seen as critical alongside good culture and conduct within financial institutions. Individual accountability is now being applied by several regulators – its introduction provides significant indication of potential outcomes where failings are identified.

The IDD focuses on the needs of the customer and requires judgement from financial organisations as to how they can best meet the regulatory requirements while taking into account their particular customer demographic and their own operating model. The rule requiring firms to act in the best interests of the customer is gaining focus, as regulators begin to assess and collate evidence from firms as to how they have adapted to these requirements both before and since the introduction of the IDD.

Technology is another area of focus for regulators. Systems used by financial institutions continue to be scrutinised to ensure operational resilience. Harnessing technology is seen as essential given the evolving methods used to perpetrate financial crime in an increasingly digitalised and interconnected world. This is intrinsically linked to data management – financial organisations must make best use of this key asset. Ongoing data management and monitoring of controls is essential for financial organisations. This criticality has been reinforced by the application of large fines imposed on worldwide organisations following the implementation of the EU's General Data Protection Regulation (GDPR).

The basis of the UK's withdrawal from the European Union (Brexit) remains unresolved in terms of transitional arrangements, but is likely to have a significant impact on insurance and investment management businesses.

Ecclesiastical and its businesses have prepared for potential outcomes arising from Brexit. Ecclesiastical has one business based in the EU, its Ireland branch. An application has been made to the Central Bank of Ireland for approval of the Ireland business as a Third Country Branch, to substitute for the current approach that enables passporting of UK authorisation. This has been agreed in principle to commence from the point existing EU law ceases to apply.

Contingency plans have been made for the transfer of data between the UK and the Ireland branch. Appropriate action has been taken so that our businesses continue to operate in a lawful manner, continuing to support our clients and business partners whatever the transition scenario. These actions will safeguard our ability to trade in the Republic of Ireland.

Trend | Our perspective

Changing demographics and social trends

Since the turn of the twenty-first century, there has been significant change in demographics across our key markets and territories. Populations are ageing in much of the developed world, leading to a fall in the working population and delayed retirement for workers, although some pressure is being relieved by higher immigration. Workers also face the threat of increased automation which is removing some lower-skilled roles and increasing productivity.

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 risks including sacred places of worship for Muslims, Hindus and Jews.

Young people are showing strong appetite for ethical employers and businesses. Increased standards in public life are influencing expectations from businesses with customers and business partners actively seeking proven ethical and trusted providers. Additionally, the pace of change (particularly in technology) leads to increased expectations from customers and business partners, who are seeking tailored propositions that meet their specific needs with enhanced levels of service. As trusted providers, our businesses continue to attract and retain prestigious customers across our geographies, as shown in Strategy in action (page 44).

Developments in technology, data and analytics

There is an increasingly held view that data has now surpassed oil as the world's most valuable asset. The insurance industry is a key consumer of this incredibly valuable asset with an increasing number of insurers adopting data-driven strategies. This allows them to create a competitive advantage and improve their operating ratios. By embedding powerful analytical tools in their infrastructure, recruiting data scientists or partnering with experts, they are able to capture data and convert it into insights in real time to optimise pricing, create new business models, improve risk selection and automate some underwriting tasks, especially in the SME sector.

Data is not only used to improve operating ratios. Insurers are moving towards customer-led propositions that can offer tailored products or provide timely, personalised guidance to consumers who have become accustomed to a personalised service in other parts of their digital lives.

Insurers are also now remodelling fundamental processes through the deployment of Robotic Process Automation (RPA). The use of bots to automate tasks from email administration, customer services and bordereaux processing to claims handling is on the rise – specific robotics positions have been created to manage these processes. The integration of various forms of machine learning with robotics, such as text and handwriting recognition, will increase the effectiveness of this technology, which can open up new opportunities to insurers, including the integration of unstructured data which may sit in a wide range of documents stored in legacy systems.

The ability to work with current and emerging technologies or become a customer-centric organisation requires the adoption of new tools and mind-sets to make insurers more nimble, responsive to customers' needs and able to accelerate the execution of ideas. The adoption of techniques such as Design Thinking have allowed insurers to rapidly test new ideas with customers and validate their assumptions before committing resource to a course of action.

The World Economic Forum's Global Risks Report identifies cyber-attacks as a key global risk. As the global dependency on technology continues to increase, cyber security is of paramount importance to businesses. Cyber-attacks have the potential to have far-reaching implications and present significant risks to governments, businesses and individuals. Our businesses continue to raise awareness of this risk, as shown in Strategy in action (page 44).

Ecclesiastical Ireland

Building on our strong faith foundation

Our clients value the unique understanding and deep expertise we bring to the faith sector. And last year saw us win significant new faith clients – one of these new clients was the Brothers of Charity Services Ireland, who provide valuable support to vulnerable young people with mental health needs, and who we were proud to begin working with early in 2019.

Since 1883, the Brothers of Charity Services Ireland has been providing a variety of services and support to people with mental health issues who are in danger of being marginalised. Today, they support approximately 6,500 people with an intellectual disability or autism, along with their families, throughout Counties Clare, Cork, Galway, Kerry, Limerick, Roscommon, Tipperary and Waterford.

Through our relationship with their broker, we secured the Brothers of Charity Services Ireland's business. They are a registered charity with a portfolio that includes a large number of heritage buildings and four schools, so we were able to leverage our different areas of specialism.

Another step towards building a wider book of faith risks in Ireland was securing, through their broker, significant religious order the Redemptorists. A congregation of brothers, most of whom are priests living in the community, Redemptorists are passionate about preaching the Gospel, especially to those living on the edges of church and society.

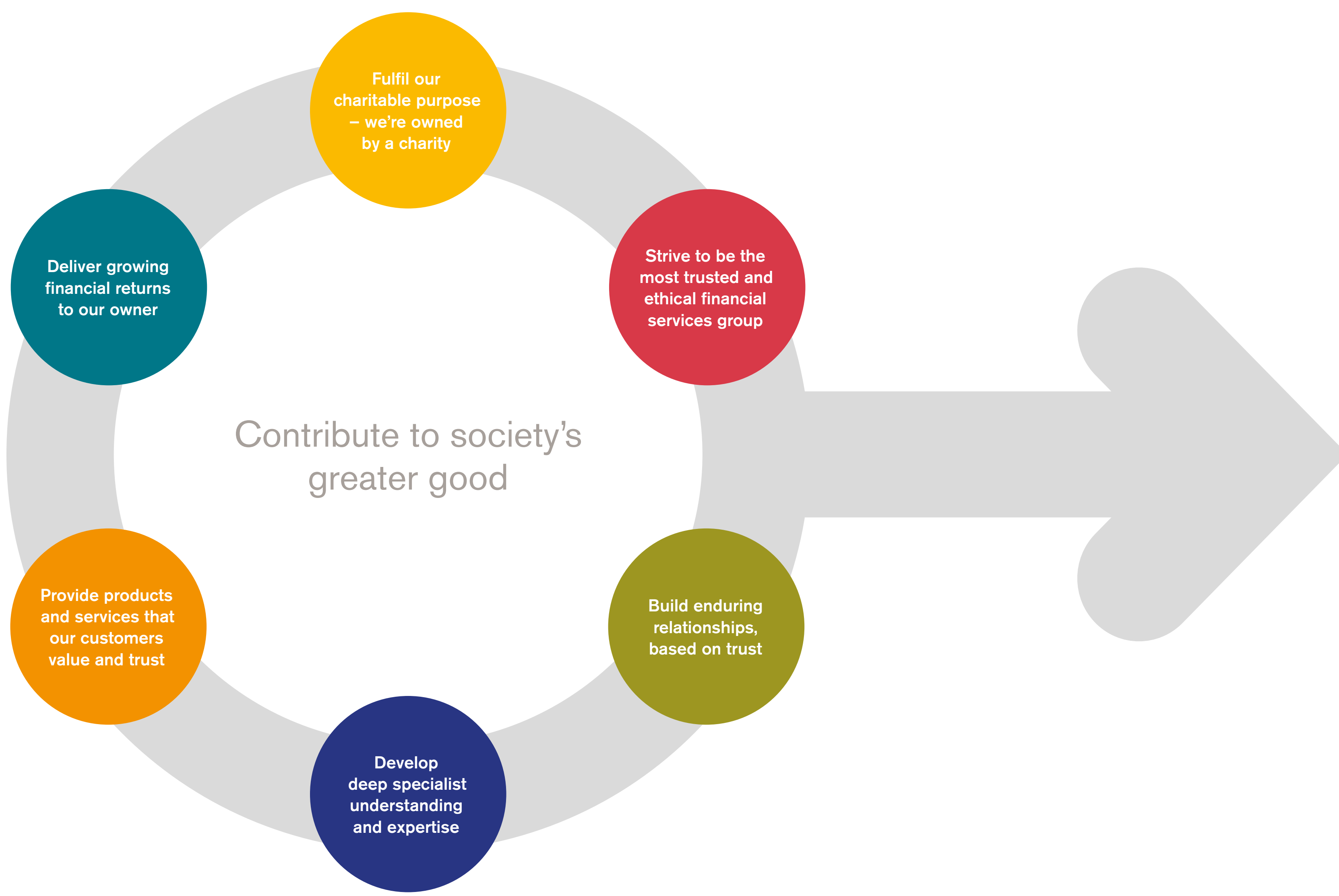
While the broker, at that time, didn't hold the risk, they had a strong connection with the key decision-maker. We proposed a meeting with the client and the broker, believing this to be the best way to get all the relevant underwriting facts and to build more trust and familiarity with our specialist proposition. Following our meeting, we received an instruction, demonstrating how critical our trilateral approach is in building confidence in all parties.

"Ecclesiastical provided the expertise and support we needed, enabling us to present a viable and competitive alternative."

Caeva O'Callaghan, Managing Director, O'Callaghan Insurance

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

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

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

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

Section Two

Strategic Report

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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 2019, £32.5m was donated to good causes and the total now stands at £96.5m. 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. Our business continues to be the only insurer in the UK's top ten corporate donors. The GivX Community Investment Index shows that Ecclesiastical has market-leading levels of employee-led community investment: our charitable ethos is demonstrated by a wide variety of activities including volunteering, employee-nominated charitable grants and employee fundraising.

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 a focus on trilateral relationships between brokers, customers and ourselves

Real specialists – building a deep knowledge and expertise in our specialist areas of financial services

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
- Recognised externally for our expertise and ethical approach, with an 83% Net Promoter Score for Ecclesiastical UK Claims and 98% overall satisfaction for our claims service
- 100% of brokers that place business with Ecclesiastical UK rate us as trusted and 100% believe we are an ethical business
- Sponsored key skills in aligned trades including The Prince's Foundation Building Craft programme
- Sponsored awards including The Governor General's History Award for Excellence in Museums (Canada) and Anglicare Awards (Australia)
- Launched Cyber Ready, our award-winning lesson plan to help schools to manage digital resilience and prevent cyberbullying
- Deepened relationships with our Church customers through our team of Church Insurance Consultants (CICs)
- Supported over 5,000 brokers, affinity groups and customers on specialist topics via our Ansvar regional forums (Australia)
- Seeking new methods to prevent theft of metal, using modern sensors to develop a more affordable option for church customers to deter and detect the removal of lead
- Testing new technologies in a joint project with English Heritage at Kenwood House, a 17th century property in London, to provide advance identification of electrical fires and machinery breakdown
- Investing in a new office building to accommodate all Gloucester-based people in a fresh, flexible and modern working environment from late 2020

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Most trusted specialist insurer

Awards and accreditations

UK

- **Fairer Finance:** most trusted home insurer (for the 10th consecutive time)
- **CIR Risk Management Awards:** Public Safety award
- **CIPR PRide Awards:** Best Corporate and Business Communications Campaign
- **CIPR PRide Awards:** Best Low Budget Campaign
- **Insurance Claims Awards:** Commercial Lines Team of the Year
- **Insurance Claims Awards:** Rising Star Award
- **Chartered Insurance Institute:** New Professional of the Year
- **Insurance Institute of Cheltenham and Gloucester:** Achiever of the Year
- **Insurance Institute of Cheltenham and Gloucester:** Lifetime Achievement Award

Canada

- Top Employers for Young People (for the 8th consecutive year)
- Greater Toronto's Top Employer 2019
- Insurance Business Awards, Excellence in Philanthropy and Community Service

Best ethical investment provider

We achieve this by

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

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

Developing our products – we are developing and deepening our fund offering with particular focus on institutional investors and charities

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

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

Strategy in action

- Recognised for responsible and sustainable investment with a strong long-term performance record
- Acknowledged as a pioneer and thought leader in our markets
- Established regional IFA Client Forums to get a greater understanding of client needs
- Engaged across the responsible investment landscape with membership of IIGCC (Institutional Investors Group on Climate Change), BBFAW (Business Benchmark on Farm Animal Welfare) and The 30% Club
- Made accelerated progress in building our institutional business client base and asset gathering
- Published our acclaimed specialist Amity Insights research with topics including Sustainability, The Life Code and Economic Inequality
- Reinforced our thought leadership position with responsible investment expert briefings on topics ranging from The How and Why of Voting to Oppressive Regimes
- Continued to strengthen our capabilities including investing in our back-office systems and began scoping a new customer relationship management (CRM) solution

Awards and accreditations

- Retained Tier I Status under the Stewardship Code
- Sustained A+ rating for the UN Principles of Responsible Investment (UN PRI)
- Gained seventh accreditation under the European SRI Transparency Code
- Moneyfacts Best Ethical Investment Provider (11th consecutive award)
- Financial Express Alpha Manager Hall of Fame 2019, EdenTree Chief Investment Officer

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

- High levels of customer satisfaction in broking with 96% of customers extremely or very satisfied with the service (SEIB) and 92% of customers extremely or very satisfied with the service (EFAS)
- Created new schemes in response to understanding specialist client needs such as property management companies
- Launched an online tool to enhance access to risk management support for funeral directors (SEIB in collaboration with Ecclesiastical)
- Continued to meet the key financial concerns of clergy and church-related people and offered financial support seminars in a number of dioceses (EFAS)
- Collaborated to present a larger portfolio to carriers in common (SEIB/Lycetts*)
- Competed in the 2019 British Insurance Broking Association (BIBA) hackathon with our Group Head of Innovation as a hackathon mentor
- Held a 'Best Livery Yard' competition for the equestrian sector with awards for best full livery yard, best riding school and best do-it-yourself (DIY) livery yard (SEIB)

Awards and accreditations

- NatWest Local Mortgage Hero Awards, Best Firm South West (EFAS)
- Women in Insurance, Broker of the Year (SEIB)
- British Claims Awards, Personal Lines Broker of the Year (SEIB)

* part of Ecclesiastical Insurance Group (EIG)

Section Two

Strategic Report

Key Performance Indicators Financial

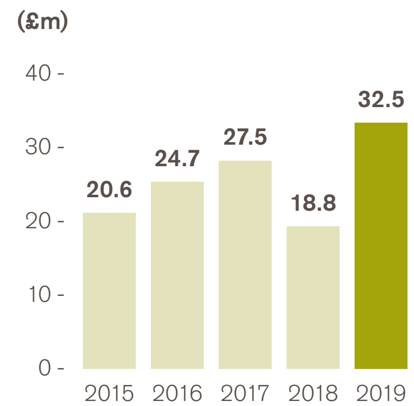
Measure | Performance

Donations

The amount donated by Ecclesiastical to charities, including our charitable owner, each year. This is the main measure of our ambition, which is to give £100m to charity by the end of 2020.

An improved investment return together with a good underwriting result[1] has enabled us to increase our charitable giving to its highest level ever. £32.5m of donations were made to good causes in 2019.

This includes grants of £30.0m to our charitable owner, Allchurches Trust Limited, and takes the total amount of giving towards our £100m target up to £96.5m.



Regulatory capital[1]

The Group's regulatory capital requirements are defined under the Solvency II directive as issued by the European Union and adopted by the Prudential Regulation Authority (PRA).

As the Group assessment is conducted at the level of Ecclesiastical Insurance Group plc, the following refers to the regulatory capital of Ecclesiastical Insurance Office plc (Ecclesiastical Insurance Office Group's parent company) and excludes the impact of Ecclesiastical Life Limited and Ansvar Insurance Limited.

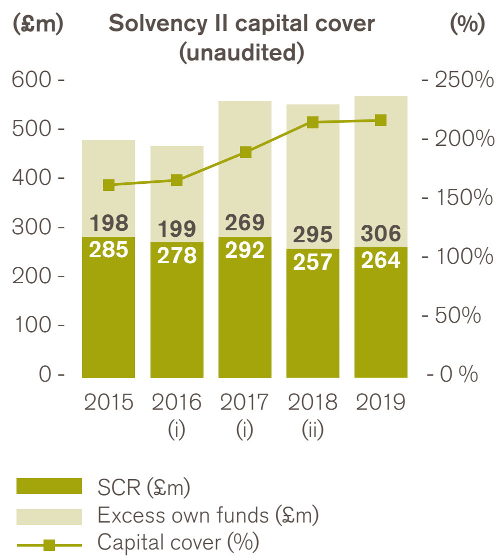
The Solvency Capital Requirement (SCR) is a risk-based statistical calculation that quantifies risks specific to our business. The Group sets a target level of capital that is in excess of the SCR to ensure ongoing compliance.

Ecclesiastical's capital cover under Solvency II has remained stable in 2019.

Investment assets have grown over the year, which has increased capital but has also raised the SCR due to an increase in Market Risk. Equity returns have been strong in 2019, increasing exposure to future market falls. Capital cover has remained constant as the increases in the SCR have been partially offset by a change in the basis used to calculate the loss absorbing capacity of deferred tax. Approval of the methodology by the PRA has enabled us, to a greater extent, to recognise a reduction in the net deferred tax liabilities following a loss event.

The figures for 2019 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.



(i) the 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

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

[1] Alternative performance measure, refer to note 36 to the financial statements for further explanation.

Measure | Performance

Profit before tax

The Group's profit before deduction of tax.

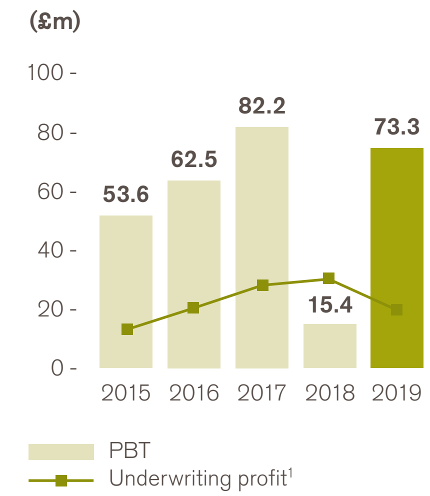
Each year, refreshed targets are set in relation to the Group's business plans for profit before tax. Details of the target that was set for 2019 can be found in the Group Remuneration Report on page 134. Our short-term target is to generate sufficient profit to enable us to meet our targets for charitable donations.

Total profit before tax increased to £73.3m in 2019, benefitting from the more favourable investment markets.

Our Broking and Advisory business continued to contribute consistent profits to the Group result while our Investment Management business reported a small loss due to continued investment to deliver future growth plans.

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

See the Financial Performance Report on page 54 for more details.



Combined operating ratio[1] (COR)

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

Each year, refreshed targets are set in relation to the Group's business plans for the Group COR. Details of the target that was set for 2019 can be found in the Group Remuneration Report on page 134. Our target over the longer term is to achieve a 95% COR.

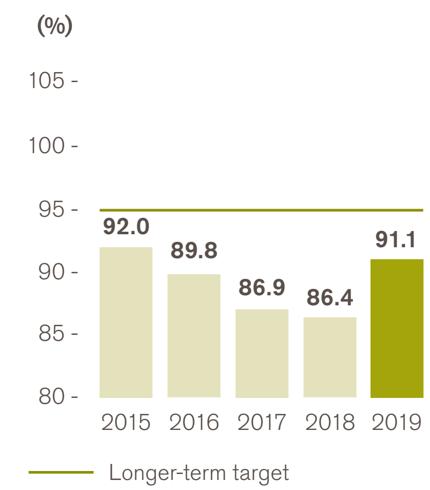
The COR has increased in 2019. This reflects the anticipated reduction in reserve releases compared to prior year from the run-off of the liability business we exited in 2012 and 2013.

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 2019, the ratio continued to outperform our longer-term target, supported by prior year releases due to favourable developments in liability claims.

For a breakdown of how COR is calculated, see note 36 on page 244.

See the Financial Performance Report on page 54 for more details.



[1] Alternative performance measure, refer to note 36 to the financial statements for further explanation.

Measure	Performance

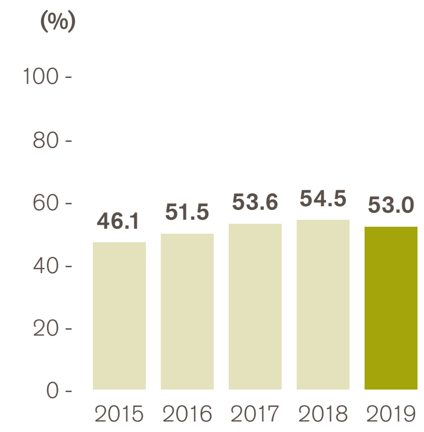
Net expense ratio[1] (NER)

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

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

Our NER decreased in 2019 to 53% driven by a 6% increase in net earned premium. Our programme of strategic investment in technology, innovation and in our people has continued in 2019 but there was no repeat of the one-off costs in the prior year in relation to the announced closure to future accrual of the UK defined benefit pension scheme and the Lloyd's Bank court ruling on Guaranteed Minimum Pension equalisation.

For a breakdown of how NER is calculated, see note 36 on page 244.



Net inflows[1] (Investment Management)

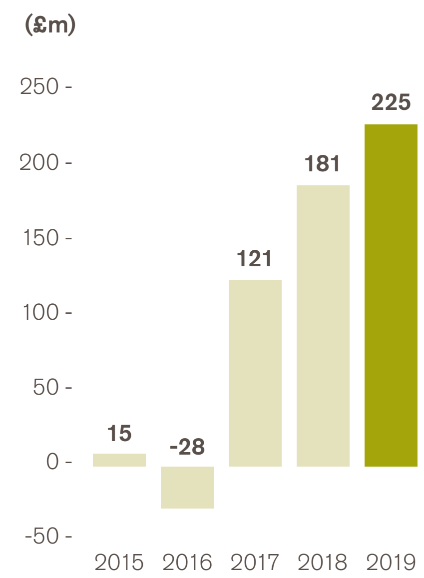
Net inflows are the difference between the funds invested and the funds withdrawn during the period by third parties in the range of funds our Investment Management division offers.

Net inflows contribute to funds under management which is a key driver of the division's revenue.

Each year, refreshed targets are set which take into account current market conditions and potential new initiatives.

Despite political and economic challenges during the year, global equities delivered robust gains in 2019. Bond markets also produced positive returns over the period, benefitting from safe haven status as trade war escalation and weaker economic growth dampened investor risk appetite. UK equities and sterling were boosted in the final month of the year following a decisive general election outcome signalling some relief around Brexit uncertainty.

2019 saw record gross new money inflows at over £0.5bn. Total net new inflows recorded the highest ever level at £225m, driven by our institutional business. The Charity pooled funds made excellent progress over the year and overall our pooled funds saw positive net inflows of £38m, driven by strong sales of our bond funds and mixed asset fund.



[1] Alternative performance measure, refer to note 36 to the financial statements for further explanation.

Key Performance Indicators Non-Financial

We place equal importance on financial and non-financial key performance indicators. Details of the non-financial performance indicators can be found within our Strategy in action section starting on page 44 and our Corporate Responsibility Report starting on page 80.

Section Two

Strategic Report

Financial Performance Report

Our 2019 results have delivered a pre-tax profit of £73.3m (2018: £15.4m) and are a demonstration of our long-term objective to deliver sustainable profitable growth. We continue to be a trusted partner to our brokers and customers, and this is reflected in our high retention and satisfaction levels, which supports our growth in revenue. Our business is managed for a long-term view of risk and, as a result, we have a strong capital position that can withstand short-term volatility.

The recovery of the market from Q4 2018 and subsequent favourable investment market conditions resulted in fair value gains on financial instruments of £56.0m (2018: losses of £35.5m) and our underwriting profit remained strong at £20.0m, (2018: £29.2m).

To support our growth and sustainability ambitions, we have continued to invest in our people, technology and our real estate. The development of our new general insurance underwriting platform is progressing well and has been designed to provide an outstanding customer, broker and employee experience.

We made charitable grants of £32.5m (2018: £18.8m) for the year as part of our commitment towards the £100m target by 2020 and have seen the positive and substantial impact this charitable giving makes to people's lives.

General insurance

Our underwriting performance[1] for the year was in line with expectations and returned a profit of £20.0m (2018: £29.2m profit), and a Group COR[1] of 91.1% (2018: 86.4%). We delivered good growth and steady underwriting profits. We've seen the results of strengthening reserves in the Australian and Canadian businesses and began to see the impacts of anticipated lower prior year releases.

United Kingdom and Ireland

The UK and Ireland reported an underwriting profit of £20.4m (2018: £29.4m profit) and a COR of 86.8% (2018: 80.2%). This represents another good performance with a favourable result on the liability account and a solid outturn on the property book. As expected, the level of prior year releases in 2019 was significantly lower than in 2018 and this has resulted in an overall reduction in the underwriting result in 2019. We anticipate this reduction to continue, with a greater contribution coming from our current year underwriting performance.

The underwriting result on the property account was similar to 2018 due to an absence of large weather events, although we experienced an increase in theft and subsidence claims during 2019. The current year loss ratios are better than expectations due to the absence of catastrophe events. The underwriting result from the liability account continues to perform favourably.

The claims releases that we have seen this year have come from historical claims that have settled more favourably than expected. The run-off of unprofitable business exited in 2012 and 2013, combined with the prudent approach to reserving have positively impacted the overall result over the last four years.

In 2019, GWP grew by 6.2% to £257m (2018: £242m). Trading conditions across the year remained competitive and we expect they will continue to be so. The education sector was particularly competitive, although we observed some market hardening in property, specifically for risks with large exposures such as heritage buildings. We have continued to achieve high levels of retention across our UK and Ireland business whilst also carrying positive rate change, which demonstrates the strength of our proposition and reputation for exceptional service. Our Real Estate and Art & Private Client business delivered particularly strong growth. GWP in respect of our Faith business remained in line with the prior year, reflecting a good result in a competitive market.

We expect the market to continue to harden in property, and casualty may follow. Education is likely to remain a key competitive area as the Government's risk protection arrangement (RPA) now attracts local authority maintained schools in addition to academies. This has left the independent schools sector exposed to competition from all education insurers.

This hardening of certain parts of the property market provides us with the opportunity to improve overall rate strength and to acquire good-quality new business at profitable rates.

[1] Alternative performance measures, refer to note 36 to the financial statements for further information.

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Our strategy over the medium term is 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 propositions that our customers value and excellent service.

Ansvar Australia

Our Australian business reported an underwriting loss of AUD$6.0m resulting in a COR of 114.1% (2018: AUD$2.5m profit, COR of 93.7%). The liability account was adversely impacted by the strengthening of physical and sexual abuse (PSA) reserves. We saw a higher than expected number of claims, a strengthening across industry as the process for claimants evolves following the conclusion of the Royal Commission, together with development in some high-profile cases. The property account was also adversely impacted by higher claims handling expenses and risk margins following the Townsville flood event. GWP grew by 24.6% in local currency to AUD$126.5m (2018: AUD$101.6m) with strong retention and rate increases.

Canada

Our Canadian business continued its track record of delivering premium growth, reporting a 17% increase in the branch's contribution towards Group GWP at CAD$109.5m (2018: CAD$93.5m) supported by strong retention, growth in new business and rating increases.

Canada reported underwriting profit of CAD$3.4m resulting in a COR of 95.1% (2018: CAD$4.5m loss, COR of 106.5%). The property book performed well with good current year experience driven by fewer large losses and the favourable development of prior year claims, helping to offset the impact of a series of weather events during the first and third quarters. The underwriting result from the liability account was adverse as reserves were strengthened in older years for PSA claims.

Other insurance operations

General insurance profits benefitted from favourable releases of prior year reserves from our businesses in run-off resulting in an overall profit of £0.6m (2018: £1.0m profit). As expected, the level of prior year reserve releases in 2019 was lower than experienced in 2018.

Investments

We saw a far less volatile end to 2019 compared with 2018, with strong returns in UK and worldwide stock markets resulting in a net investment return of £74.4m (2018: £4.0m). Income from financial assets remained stable at £26.2m (2018: £27.0m) reflecting the continued low interest rate environment and downwards pressure on yields. Fair value gains on financial instruments of £56.0m contrasted with losses of £35.5m in 2018, as both equities and bonds strengthened over the year, with the UK market in particular benefitting latterly from renewed confidence. In spite of this strong 2019 result, there remains as ever political and economic uncertainty which could impact the performance of our investments, and as for all businesses, we are subject to the consequences of disruption that events such as the current Coronavirus outbreak can have on financial markets. Nevertheless we remain confident in our long-term value investment philosophy, and are relatively defensively positioned and well diversified across a broad range of asset classes.

Within our UK equity portfolio, the mid-cap bias proved beneficial as the FTSE 250 index outperformed the FTSE All-Share index by 10%, driven in large part by fourth quarter strength as the election of a majority Government reduced Brexit uncertainty.

Our directly-held sterling bond portfolio underperformed the FTSE Gilts benchmark by 2.8% due to our greater exposure to short dated bonds, which we hold for liability matching and liquidity management purposes. In the final quarter, as yields improved, we saw the benefit of our shorter dated portfolio in our portfolio's performance. The fixed interest portfolio also benefitted as a result of allocation to corporate bonds where narrowing credit spreads drove higher returns relative to gilts.

The downward movement in bond yields led to a decrease in the discount rate applied to long-tail general insurance liabilities. The change in discount rate on those liabilities resulted in a £12.4m loss recognised within investment returns (2018: £4.1m profit).

Investment Management

The Group's Investment Management business, EdenTree, continued to develop its presence in the charity and institutional markets. Net inflows of £219m (2018: £181m) were the highest in EdenTree's history.

Global equity markets delivered double digit returns over the year and coupled with strong net fund inflows resulted in total funds under management increasing by 14% to £3.1bn (2018: £2.7bn).

Fee income was marginally ahead at £12.8m (2018: £12.6m). Overheads have increased by 13% in the year primarily from our continued investment in people and technology to support delivery of future growth plans. As a result, our Investment Management business reported a loss before tax of £0.3m (2018: profit before tax £0.9m).

Long-term insurance

Our life insurance business, which is closed to new business, reported a profit before tax of £0.3m for the year (2018: £1.6m). Assets and liabilities are well matched, and the small profit is in line with our expectations for this business as it runs off.

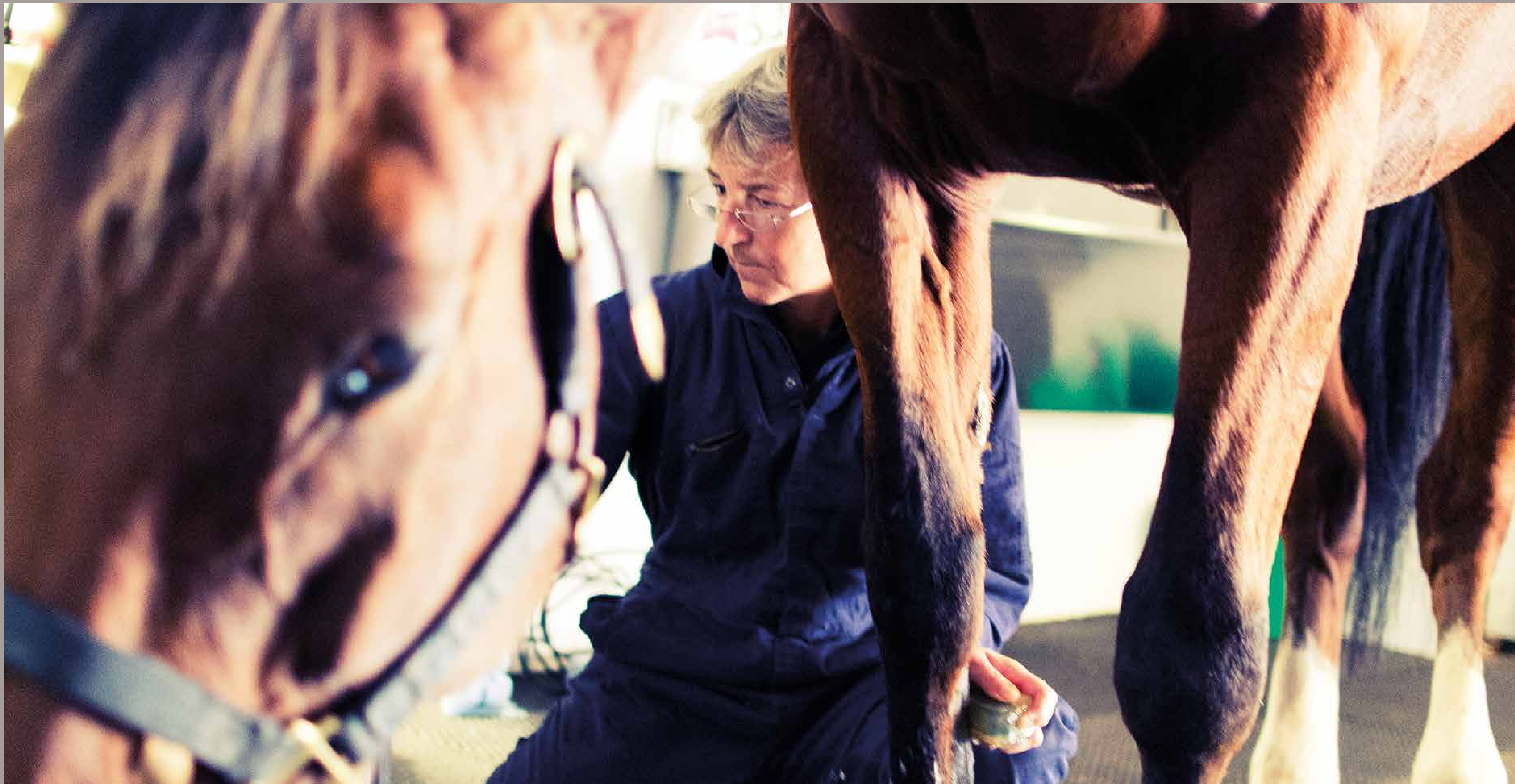
Broking and advisory

Overall, broking and advisory had modest growth in income and profit, reporting a profit before tax of £2.1m (2018: £2.0m). This area of our business includes our insurance broker, South Essex Insurance Brokers (SEIB), our financial advisory businesses, Ecclesiastical Financial Advisory Services (EFAS) and Ansvar Risk Management Services (ARMS). SEIB reported an increase in profit before tax to £2.6m (2018: £2.4m). EFAS reported a loss of £0.4m in the year (2018: £0.2m loss).

Outlook

The Group takes a long-term view to managing and investing in the business and our 2019 financial results, including our strong capital position is reflective of this approach. The decisions we take are also made with a focus on delivering sustainable profitability and our vision to be the most trusted and ethical financial services group. As we look forward to 2020 and beyond, we will exercise caution where our businesses may need to operate around uncertainty and market disruption. We will continue to focus on delivering sustainable profit growth and remain optimistic about the opportunities to continue to evolve our business for the greater good of society and to make a positive impact on people's lives.

Denise Cockrem
Group Chief Financial Officer



SEIB

Keeping horse welfare moving

With over 50 years' experience in the equestrian industry, we remain one of the leaders in this specialist field. Horse owners ourselves, we understand the unique issues that can arise. So, when we got a call from the British Horse Society (BHS) telling us that their healthcare vehicle had been stolen, we knew the consequences for ill and neglected horses could be serious. We also knew we had to get straight to work.

Horse welfare is one of the key roles of the BHS. And their healthcare vehicle, purchased using a £50,000 grant in 2018 through our SEIB Giving charity campaign, enables them to move vital equipment as well as to transport horses to veterinary hospitals.

After consulting the BHS PR department, we both decided to spread the news of the stolen healthcare vehicle across social platforms. Within a few hours of the posts going live, it was found just a few miles from where it was stolen.

The equestrian community in the local area even surrounded the healthcare vehicle with their own vehicles to block it in until the police arrived, demonstrating the strength of loyalties within the equestrian community.

Sadly, the healthcare vehicle was damaged in the incident but we were able to get it repaired fast. We also persuaded our insurer partners to supply a suitable hire vehicle for the BHS welfare team to use on their pre-arranged missions. In short, we went all out to ensure that the vital work of the BHS wasn't halted because of the theft.

"The British Horse Society welfare team was devastated when our bespoke healthcare vehicle was stolen, ransacked and vandalised. In a far from straightforward situation for us, involving specialist equipment and the healthcare vehicle itself, we experienced a sensitive, sensible and personal service from SEIB who simplified the complicated process of dealing with multiple insurers, loss adjusters, engineers and suppliers throughout the claims process."

Duncan Snook, Finance Director
and Company Secretary
The British Horse Society

‘We will continue to deepen our specialist capabilities through investment in technology and innovation, and to provide propositions that our customers value and excellent service.’

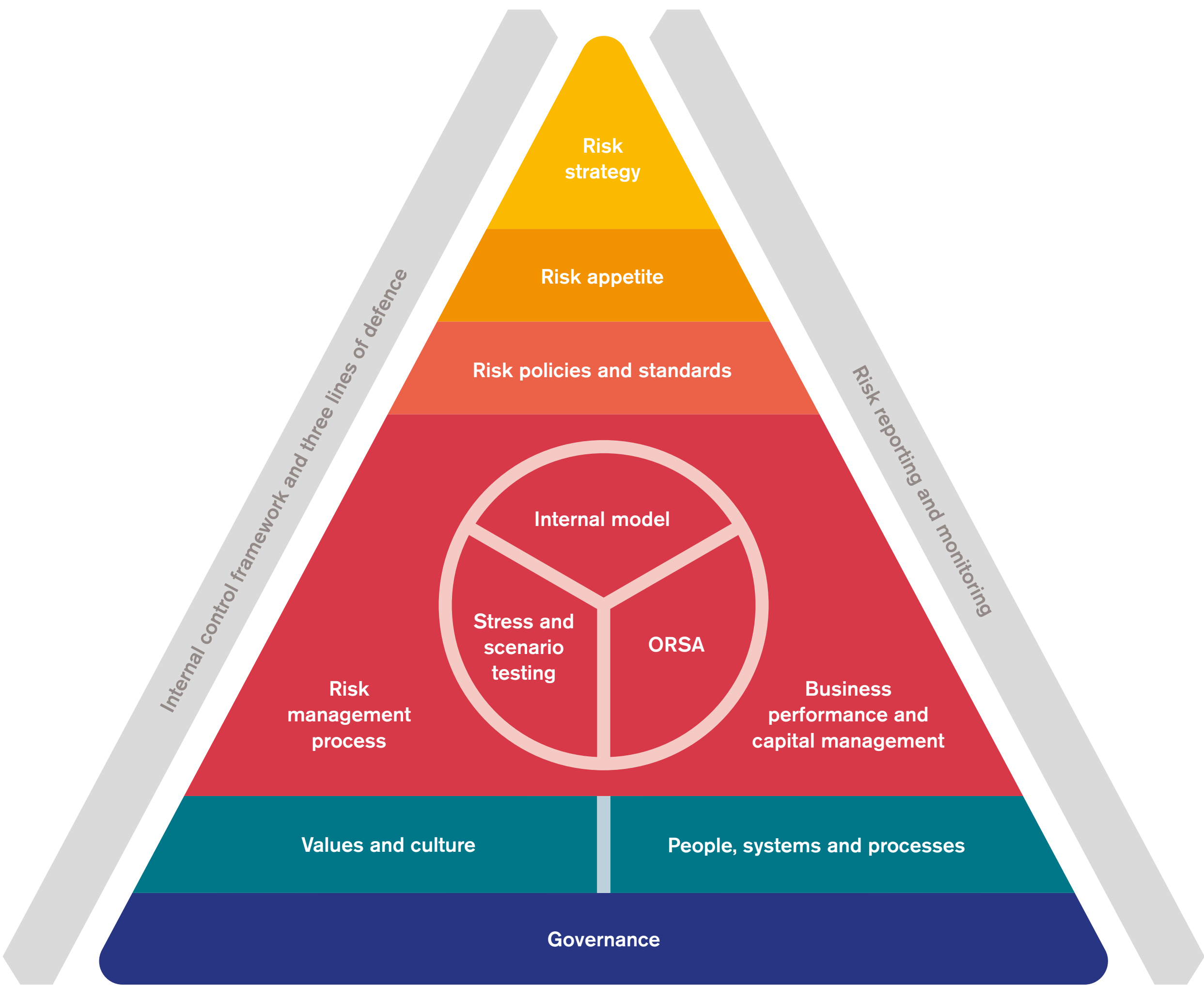
Section Two

Strategic Report

Risk Management Report

Introduction

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



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

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 Group Management Board (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 team. Formal monitoring of the key strategic risks is undertaken quarterly, including progress of risk management actions, and is overseen by the Executive Risk Committees.

Ecclesiastical has clearly defined the accountabilities, roles and responsibilities of all key stakeholders in implementing and maintaining its Risk Management Framework. These are defined, documented and implemented through the terms of reference (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 provide reasonable, but not absolute assurance as to the prevention and detection of financial misstatements, errors, fraud or violation of law or regulations.

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

- 1st Line (Business Management) is responsible for strategy execution, performance and identification and management of risks and application of appropriate controls
- 2nd Line (Reporting, Oversight and Guidance) is responsible for assisting the Board in formulating risk appetite, establishing minimum standards, developing appropriate reporting, oversight and challenge of risk profiles and risk management activities within each of the business units. This includes Executive Risk Management Committees (Insurance, Market and Investment and Operational, Regulatory and Conduct Risk) 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 support the delivery of 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 GRC at each meeting.

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

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

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

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

Risk environment

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

The uncertainty around Brexit continued during 2019 although reduced by year end. The main risk identified for the Group as a result of Brexit was the loss of its ability to carry out business in the Republic of Ireland using the freedom to provide services currently afforded by the UK's membership of the EU. This risk has been mitigated, as during 2019 approval in principle was obtained 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 remaining uncertainty of the outcome of Brexit has the potential to result in adverse economic conditions and affect the value of our investments and our customers. We have not identified any further material risks to our business as a result of Brexit and we continue to monitor this position as well as the potential impact of other risks such as global trade disputes.

During 2019, we maintained our existing investment approach and made no material changes to our asset mix. We continue to hold a diversified portfolio of assets including equities which we believe remain a good prospect for long-term returns. Consequently, we take a relatively high level of market risk which is well understood and closely managed. The defined benefit pension scheme was closed to future accrual from June 2019 which will enable further reductions in the risk associated with the scheme.

Within the insurance businesses of the Group and in the wider markets, 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 key risk that we continue to actively manage. The Independent Inquiry into Child Sexual Abuse in the UK is progressing and we have participated in one of the investigations during 2019. We are monitoring this inquiry, and also developments in the other territories in which we operate to determine the potential impacts on these claims.

Competitor activity is an ever-present risk across all our business operations and chosen niches. This could have an adverse impact on our ability to charge the appropriate price for a risk, threaten our growth plans or even lead to a decline in scale with resultant adverse financial impact.

Regulatory change continued during 2019 including the extension of the Senior Managers and Certification Regime to additional companies within the Group. Management of change in the regulatory environment continues to be a focus to ensure that we operate within relevant legal, regulatory and consumer protection requirements and guidelines and that our people maintain the highest standards of conduct.

Cyber risk continues to evolve at a pace. We hold customer data and therefore any event involving a significant loss of such data could result in harm to the data subjects, significant operational disruption and an impact on our service to customers as well as sizeable regulatory fines and reputational damage. The increased societal focus on data security and appropriateness of use, through regulations such as GDPR, results in increased scrutiny and prominence.

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

Climate change presents increasing levels of risk to our businesses and our customers. Whilst the greatest impacts of these risks are expected to materialise in the medium to long term, we are considering the actions that we should be taking to mitigate and manage these risks now. Our potential exposures include transition risk, primarily related to our investment portfolio, and physical risk affecting the insurance risks that we cover.

The Group considers COVID-19 a new emerging risk. The Group has business continuity plans in place and a crisis management team has been active in preparing for responses to this event. The Group will continue to monitor the situation and the advice from Governments and relevant health authorities in the countries we operate in as the outbreak evolves and will take appropriate action.

EdenTree Investment Management

Evolution with conviction

The responsible investment market is changing fast, and as a pioneer in this space for over 30 years EdenTree remains at the forefront of this movement. Our expertise and agility keeps us a step ahead, enabling us to respond to the challenges and opportunities of a growing market, whilst our commitment to integrity and our resolve in managing client funds with trust remains unshakable. This year, we've taken the important step of better defining what we do, calling it 'responsible and sustainable' investment.

A key part of this process in 2019 was the publication of our Amity Insight: Sustainability report, which set out how we define and integrate sustainability into our investment process in order to be clear and transparent.

Steps like these keep us at the forefront of the increasingly vibrant conversation around responsible and sustainable investing. We continue to embrace that role and it's clear that our clients look up to us as a firm that can lead by example. In September we took home the award for 'Best Ethical Investment Provider' at the Investment Life & Pensions Moneyfacts Awards 2019, for the eleventh consecutive year. Proof perhaps, that after 30 years of innovation we're still leading the charge, bringing responsible and sustainable investing into the mainstream.

"We see the increased appetite for sustainable investing as a huge opportunity – however we also believe that this brings significant challenges and risks. And we continue to act as a respected and authoritative voice in the market, addressing these concerns."

Sue Round, Chief Executive Officer
EdenTree Investment Management

"We are witnessing a sea change in attitudes towards responsible and sustainable investing. Most clients no longer view performance as a barrier. While this is welcome news for us, we believe that much more needs to be done to explain the nuances of ethical and responsible investing. A failure to communicate effectively makes the industry vulnerable to greenwashing and mis-selling."

Neville White, Head of RI Policy & Research
EdenTree Investment Management

Principal risks

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

Insurance risk

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

Risk detail	Key mitigants	Change from last year*
Underwriting risk[1] The risk of failure to price insurance products adequately and failure to establish appropriate underwriting disciplines. The premium charged must be appropriate for the nature of the cover provided and the risk presented to the Group. Disciplined underwriting is vital to ensure that only business within risk appetite and desired niches is written.	▪ A robust pricing process is in place ▪ The Underwriting Licencing process has been refreshed ▪ A documented underwriting strategy and risk appetite is in place together with standards and guidance and monitored by SBUs ▪ This is supported by formally documented authority levels for all underwriters which must be adhered to. Local checking procedures ensure 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	There have not been material changes to this risk during the year. We continue to focus on managing our portfolios through various initiatives in order to mitigate this risk as our insurance business develops.
Reserving risk[1] Reserving risk is the risk of actual claims payments exceeding the amounts we are holding in reserves. This arises primarily from our long-tail liability business. Failure to interpret emerging experience or fully understand the risks written could result in the Group holding insufficient reserves to meet our obligations.	▪ Claims development and reserving levels are closely monitored by the Group Reserving team ▪ For statutory and financial reporting purposes, prudential margins are added to a best estimate outcome to allow for uncertainties ▪ Claims reserves are reviewed and signed-off by the Board acting on the advice and recommendations of the Group Chief Actuary following review by the Reserving Committee. An independent review is also conducted by the Actuarial Function Director	This risk is not considered to have changed materially during the year. No significant developments have impacted this risk.

Risk detail	Key mitigants	Change from last year*
Catastrophe risk[1] The risk of large-scale extreme events giving rise to significant insured losses. Through our general insurance business we are exposed to significant natural catastrophes in the territories in which we do business.	▪ Modelling is undertaken to understand the risk profile and inform the purchase of reinsurance ▪ There is a comprehensive reinsurance programme in place to protect against extreme events. All placements are reviewed and approved by the Group Reinsurance Board ▪ A Catastrophe Risk Management Group provides oversight and sign-off of reinsurance modelling ▪ The Group Risk Appetite specifies the reinsurance purchase levels and retention levels for such events ▪ Local risk appetite limits have been established to manage concentrations of risk and these are monitored by SBUs ▪ Exposure monitoring is undertaken on a regular basis	There have been no material changes to this risk. We continue to monitor our aggregations and exposures to such events and ensure careful management utilising appropriate protections.
Reinsurance risk The risk of failing to access and manage reinsurance capacity at a reasonable price. Reinsurance is a central component of our business model, enabling us to insure a portfolio of large risks in proportion to our capital base.	▪ We take a long-term view of reinsurance relationships to deliver sustainable capacity ▪ A well-diversified panel of reinsurers is maintained for each element of the programme ▪ A Group Reinsurance Board is in place which approves all strategic reinsurance decisions	The level of this risk has remained broadly similar since last year.

[1] 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[1] The risk of adverse movements in net asset values arising from a change in interest rates, equity and property prices, credit spreads and foreign exchange rates. This principally arises from investments held by the Group. We actively take such risks to seek enhanced returns on these investments. The Group's balance sheet is also exposed to market risk within the defined benefit pension fund.	• An investment strategy is in place which is reviewed 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 the 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 197.	Overall, the market risk profile has not materially changed and we remain invested for the long term. We continue to monitor the remaining uncertainty from the outcome of Brexit as well as the potential impact of other risks such as global trade disputes. Since the end of 2019 markets have shown increased uncertainty due to the COVID-19 outbreak and we are continuing to monitor the situation.
Credit risk[1] The risk that a counterparty, for example a reinsurer, fails to perform its financial obligations to the Group or does not perform them in a timely manner resulting in a loss for the Group. The principal exposure to credit risk arises from reinsurance, which is central to our business model. Other elements are our investment in debt securities, cash deposits and amounts owed to us by intermediaries and policyholders.	• Strict ratings criteria are in place for the reinsurers that we contract with and a Reinsurance Security Committee approves all of our reinsurance partners • Group Reinsurance monitors the market to identify changes in the credit standing of reinsurers • There are risk appetite limits in place in respect of reinsurance counterparties which are agreed by the Board • Strong credit control and risk management processes are in place to manage broker exposures, policyholder exposures and other elements of credit risk Further information on this risk is given in note 4 to the financial statements on page 197.	The level of this risk is materially 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.
Climate change The financial risks arising through climate change. The key impacts for the Group are the long-term impact on the risks insured, particularly through changes to the nature, scale and frequency of future catastrophe events; and the impacts on the investment portfolio due to developments in how the firms invested in respond to movements towards a lower carbon economy.	• There is an established ethical and responsible investment policy in place for our funds and property investments • We are developing catastrophe modelling with reinsurers to support better understanding of climate risk	This risk has been added to the Group Risk Register during 2019. A programme of work is underway to fully analyse the risks and develop an appropriate risk management response.

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

Operational risk[1]

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

Risk detail	Key mitigants	Change from last year*
Systems risk The risk of inadequate, ageing or unsupported systems and infrastructure and system failure preventing processing efficiency. Systems are critical to enable us to provide excellent service to our customers.	▪ Systems monitoring is in place together with regular systems and data backups ▪ A strategic systems programme is underway to deliver improved systems, processes and data ▪ Business recovery plans are in place for all critical systems and are tested according to risk appetite	During 2019, a new claims system was implemented and strategic systems programme continued to make progress. The scale and complexity of this programme results in heightened change risk during the development and implementation period.
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 continue to increase in both number and sophistication across all industries.	▪ A number of security measures are deployed to ensure protected system access ▪ Security reviews and assessments are performed on an ongoing basis ▪ There is ongoing maintenance and monitoring of our systems and infrastructure in order to prevent and detect cyber security attacks	Although the threats continue to evolve, we proactively review and update our controls and therefore the overall residual 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 continues to be a significant volume of change within the business which is monitored closely.

Risk detail	Key mitigants	Change from last year*
Operational Resilience The risk that the Group does not anticipate, prepare for, respond and adapt to incremental change and sudden disruptions resulting in an inability to continue to deliver customer critical services. The Group provides a wide range of services to a diverse customer base and has a reputation for delivering excellent service. Therefore, we seek to minimise the potential for any such disruption that would impact on the service provided to our customers.	▪ A recovery and resilience framework is in place aligned to the delivery of customer services ▪ Recovery exercises including IT systems are regularly performed across the Group with actions identified addressed within an agreed timescale ▪ All suppliers are subject to ongoing due diligence ▪ There is ongoing maintenance and monitoring of our systems and infrastructure in order to prevent and detect issues	This risk has changed materially since 2019 year end. The COVID-19 outbreak has the potential to result in significant operational impact. This is being managed closely and developments monitored. A Crisis Management Team has been active in preparing for required responses in line with advice from Governments and relevant health authorities for the countries we operate within.
Data Management and Governance The risk that the confidentiality, integrity and/or availability of Data held across the Group is compromised, or Data is misused. The Group holds significant amounts of customer and financial data and there could be significant implications if this is compromised or is found to be inaccurate.	▪ Group Data Governance and Group Data Management and Information Security Policies are in place ▪ A Group Data Optimisation Programme is in place which is responsible for ensuring the delivery of the data strategy and all aspects relating to the governance, management, use and control of the Group's data in line with regulatory requirements	The level of this risk is materially unchanged from last year. It is being monitored and managed in the context of major change programmes.

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

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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 continues to be a significant volume of regulatory change. We remain focused on the management of regulatory change and therefore the overall risk level is unchanged.
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	The level of this risk is unchanged from last year.

Reputation risk

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

Risk detail	Key mitigants	Change from last year*
Brand and reputation risk The Group aims to be the most trusted specialist insurer and, as a consequence, this brings with it high expectations from all of our stakeholders, be they consumers, regulators or the wider industry. Whilst we aim to consistently meet and where possible exceed these expectations, increasing consumer awareness and increased regulatory scrutiny across the sector exposes the Group to an increased risk of reputational damage should we fail to meet them, for example as a consequence of poor business practices and behaviours.	• There is ongoing training of core customer facing staff to ensure high skill levels in handling sensitive claims • We adopt a values led approach to ensure customer-centric outcomes • Dedicated Marketing and PR function responsible for the implementation of the marketing and communication strategy • Ongoing monitoring of various media to ensure appropriate responses	Maintaining a positive reputation is critical to the Group's vision of being the most trusted and ethical specialist financial services group. Risks to our brand and reputation are inherently high in an increasingly interconnected environment, with the risks of external threats such as cyber security attacks, and viral campaigns through social media always present. The ongoing IICSA inquiry and related PSA issues continue to be a key area of executive management focus.

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

Longer-term viability statement

It is fundamental to the Group's longer-term strategy that the directors manage and monitor risk taking into account all key risks the Group faces, including longer-term insurance risks, so that it can continue to meet its obligations to policyholders. The Group is also subject to extensive regulation and supervision including Solvency II. Against this background, the directors have assessed the prospects of the Group in accordance with Provision 31 of the 2018 UK Corporate Governance Code, with reference to the Group's current position and prospects, its strategy, risk appetite, and the potential impact of the principal risks and how these are managed.

The risks presented by COVID-19 have been considered. The Group has business continuity plans in place that support the continued operation of business activity and has capital resources that can withstand significant temporary market disruption. At this stage there is no perceived material risk to the Group's viability resulting from the COVID-19 outbreak. The risks presented by Brexit have been considered and at this stage there is no perceived material risk to the Group's viability.

The assessment of the Group's prospects by the directors covers the three years to 2022 and is underpinned by management's 2020-22 business plans which make assumptions relating to: the prevailing economic climate and global economy; the structural challenges facing the financial services sector; and the costs associated with delivering the Group's 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. Stress and scenario analysis has been performed with reference to the principal risks of the Group, which are documented on pages 68 to 75. 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
10% increase in annual operating expenses	Operational risk
Combined 1 in 20 investment market fall and CAT windstorm	Market and investment risk, and catastrophe risk

Scenario testing found that the combined 1 in 20 investment market fall 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 analysis confirms 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 Limited. There is a regular cycle of discussion with Allchurches Trust Limited to determine the appropriate level of grants, in which the Group's capital position and future business needs are taken into account.

Confirmation of viability

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

Section Two

Strategic Report

Ecclesiastical Canada

Restoring hope

Protecting churches from the risk of fire was what Ecclesiastical was set up to do back in 1887. And while the risks we manage may have changed, fire remains an ever-present threat. In June 2018, the 114-year-old St Paul Church in Bas-Caraquet, New Brunswick, Canada, was engulfed in flames and totally destroyed. Since the church was at the heart of this small town, the community was devastated, so we knew it was important to respond fast to try and lift their spirits.

Our claims team swiftly met with church representatives, architects, engineers and others to discuss plans for a new church. And it quickly became apparent that it needed to retain some of the character of the much-loved original.

One of the saddest losses was St Paul's beautiful stained-glass windows, so our claims team immediately set to work to try and find replacements. After painstaking research, they managed to track down some wonderful old stained-glass windows from churches that were due for closure. They were also fortunate enough to be able to acquire an altar, tabernacle, chairs, candelabra and other items from churches that were no longer in use.

At a meeting to show the community these lucky finds – along with the new-build plans – feedback was extremely positive. The meeting was also a great opportunity for us to show how we really listen to our customers and to demonstrate the lengths we're prepared to go to when dealing with claims. The architect of this new project quickly understood the importance of keeping certain memories of the old place of worship.

"They love their church, it's a very intimate part of their community, so to bring some of their features forward and to include them in the design was very important."

Foster MacKenzie
Habermehl Contracting

Corporate Responsibility Report 2019 highlights

Our workplace

>30%

of senior management roles globally filled by women (2018: 29.9%)

83%

of staff are positive about the statement 'I am proud to work for this company' (2018: 86%)

3rd cohort of global leadership development programme delivered

People Leaders Academy launched in the UK

Our community

£32.5m

total charitable giving (2018: £18.8m)

100,000

nominations for 7,000 charities during our Movement for Good Awards

60%

of employees took up volunteering time (2018: 60%)

90%+

of employees engaged in giving (2018: 90%)

Our marketplace

70%

of suppliers paid within 30 days, published as part of the Payment Practices and Performances Reporting (2018: 69%)

Advisory Panels set up to listen to customer groups

Winner of Best Ethical Investment Provider and Fairer Finance Gold standard for more than a decade

Our environment

87%

electricity from renewable sources (2018: 78%)

Carbon footprint

CO_2

of all EdenTree equity funds better than their respective benchmarks

ClimateWise

member of voluntary industry initiative

1,425 tonnes

total carbon emissions, Scopes 1-3 (2018: 1,118 tonnes)

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Overview

Corporate responsibility 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, Women in Finance and the Fairer Finance Gold Ribbon and we are a member of ClimateWise. Our ethical investment business EdenTree maintains a number of memberships including the UK Sustainable Investment and Finance Association, UN Principles for Responsible Investment and the Institutional Investors Group on Climate Change.

We use a materiality approach to drive our strategy, responding to new responsible business challenges which impact our customers, partners and communities. Key issues we continue to focus on include climate change, cyber security, charitable giving, diversity and governance.

Gender by level

	Male	Female	Total
Group Management Board*	4	4	8
Senior Leader	72	31	103
Manager	246	174	420
Team Member	382	618	1000
Total	704	827	1531

Gender pay gap

	2019	2018	2017
Fixed pay gap mean/median	27.6% / 22.4%	30.6% / 23.5%	30.7% / 25.0%
Bonus pay gap mean/median	50.1% / 32.4%	55.8% / 36.5%	53.5% / 33.1%

Ethnicity

White	Prefer not to say	BME	Total
1259	192	80	1531

* Includes Executive Directors

Our workplace

We believe in supporting diversity and development and building an open and responsible culture.

Leadership and culture development activities in 2019 included continuing our global Leadership Development Programme which has now supported nearly 50 senior and aspiring leaders. All of our leadership population benefitted from 'leadership masterclasses' covering emotional intelligence and high performance.

We continued to support a range of professional and technical qualifications and training including adherence to the Senior Managers and Certification Regime and Conduct rules. We launched a 'People Leaders Academy' in the UK and Ireland for all managers and rolled out 'confident conversations' workshops to over 200 managers to support with management responsibilities.

To continue to drive and develop our culture we relaunched an updated Code of Conduct, achieving 96% employee signup. We also established an 'Office Life Network' of employees at our head office to help prepare and plan for our move to a new build. We involved employees in designing the working environment, planning travel and facilities. We have committed to design it to a Fitwel Standard to support greater employee wellbeing.

A higher proportion of our senior roles are being filled by women resulting in a falling pay gap. Three years since signing up to the Women in Finance Charter, women now make up 30% of our senior management roles globally.

We continued to uphold Living Wage status in the UK. Ecclesiastical Canada was included in Canada's Top 100 Employers for Young People for the eighth consecutive year. Employee engagement across the Group remains high, with 83% positive about the statement 'I am proud to work for this company'.

Our community

We believe business should give more and we're proud to support thousands of charities through our giving.

We have always been a different kind of business, but over recent years we have challenged ourselves to give even more to good causes and champion corporate giving. We have now given £96.5m towards our target of £100m by 2020 and continue to be a leading corporate giver to charity.

In 2019, our ambition was boosted by our biggest ever giving campaign. We launched the Movement for Good Awards in the UK, giving £1m to good causes. We wanted to reach the greatest possible number of charities, and we achieved this. Five hundred charities received £1,000 donations with nearly 100,000 nominations from supporters for around 7,000 charities. We also wanted to support charities with substantial multi-year funding for innovative and exciting projects really making a difference, and we achieved this. We gave ten £50,000 grants to charity projects which supported causes including survivors of modern slavery, tackling loneliness and isolation among older people and bringing greater support to young carers.

Giving led by our employees and partners continues to be a cornerstone of our activity. Employee giving was sustained at high levels in 2019, with every part of our Group getting behind charity fundraising, volunteering and giving efforts. In tota,l this generated over £350,000. We work closely with a number of brokers in the UK and, through our 'Select' programme, we gave nearly £100,000 to charities our brokers care about. In our #12days of Giving campaign 120 charities received £1,000 donations at Christmas thanks to nominations from employees, partners, brokers and supporters.

Across our Group, giving is directed at causes close to our businesses and charities making a difference in communities local to them. In Australia, for example, the Community Education Programme reaches neglected young people through the Lighthouse Foundation. In Ireland, we're helping the homeless through the charity Focus. In Canada, our Impact Grants Programme supports vital services for young people provided by the charity Phoenix. Our ethical investment business, EdenTree, helps trafficked women through the charity Street Talk. UK brokers Lycetts support people with disabilities working with Learning for Life and SEIB are improving equine welfare through funding for the British Horse Society. Read our Impact Report on www.ecclesiastical.com to find out more.

Allchurches Trust, our charitable owner, gave a record amount in grants in 2019 – more than £17.8 million – benefitting more than 1,200 good causes across the UK and Ireland. At the heart of the Trust's giving is making a positive difference in partnership. As well as supporting churches and charities who play a vital role in tackling social isolation, giving hope to those in need and supporting young people to flourish, Allchurches provides funding to protect and preserve heritage buildings and traditional skills. Under the auspices of Allchurches Trust, our Australian and Canadian businesses also offered grants programmes that changed lives and communities for the better. Find out more about Allchurches Trust's giving on their website at www.allchurches.co.uk

Our marketplace

We believe in putting customers and partners at the heart of everything we do, focusing on good governance, service and support.

Our outstanding commitment to customers and partners was reflected in numerous awards across our Group in 2019. They include recognition for our claims, risk management, financial advice and investment service and expertise. Our people won Achiever and Lifetime Achievement awards from the Chartered Insurance Institute in the UK and our Canadian business was recognised for excellence in philanthropy and community service. We're proud of the number of awards we've won, but we're equally proud of winning consistently year-on-year. Notably, we have won Best Employer for Young People in Canada eight times, and we've been Best Ethical Investment Provider and top of the Fairer Finance table for a decade.

Understanding and listening to our customers underpins this positive recognition. As well as surveying and feedback programmes, in the UK we've also gathered together sector representatives to establish advisory groups. We convened groups from the education and heritage sectors to discuss risk and responded by launching a cyber risk toolkit and scenario planner for schools. Our partnerships with sector bodies in all of the markets and geographies we operate continue to help us understand and connect with our customers, ensuring our products and services truly deliver.

We uphold good practices regarding human rights, anti-corruption and anti-bribery through a range of measures including robust risk management, employee Code of Conduct and employee regulatory training on topics such as data protection. We continue to submit our Modern Slavery Act declaration and are pleased that the Payment Practices and Performance Reporting demonstrates our commitment to fair payment for all our suppliers.

Our environment

We believe in running our business in a sustainable way to tackle climate change and encourage others to do more.

In 2019, we completed voluntary ClimateWise reporting to assess our performance and provide challenge for improvement. The report is aligned to the Taskforce on Climate-related Financial Disclosures (TCFD) and is summarised in the graphic here. The positive action we are taking includes:

- An established ethical and responsible investment policy for our funds and property investments
- Approaches to scenario analysis in our risk management process to assess the impact of climate change on our business
- Carbon footprint disclosure and third-party verification
- Developing catastrophe modelling with reinsurers to support better understanding of climate risk
- Specific products and policy conditions reflecting climate change – including a crop failure product for example
- Informing our customers and partners through flood advice and a series of thought leadership publications on topics including energy, sustainable cities and fossil fuel divestment
- Transparent responsibility for, and reporting of, climate change risk, in particular in response to the PRA's requirements for greater visibility on the financial impacts of climate change.

In our continuing efforts to reduce our direct impact on the environment, we increased the proportion of our UK electricity sourced from renewables to 87%. We benchmarked the carbon footprint of EdenTree's equity funds once again and they all continue to report a lower carbon intensity than their respective benchmarks, reflecting the thorough screening process and an active process to look for companies with strong environmental practices.

We incorporated sustainable thinking into our new UK head office planning – committing to the Building Research Establishment Environmental Assessment Method, installing solar panels and completing employee travel engagement.

An overview of our Group's 2019 ClimateWise report

The size of the sectors reflects the weighting applied by ClimateWise

Ansvar Australia

Helping to identify and manage faith-specific risk

As the leading faith insurer in Australia, Ansvar has in-depth understanding of the sector's unique needs and risks. And through our risk division, Ansvar Risk, our risk management services build capability, governance expertise and sustainability of organisations to support vulnerable people to improve their lives. It was this expertise that our client Churches of Christ in Queensland, Australia, were looking for in 2019.

Churches of Christ in Queensland, Australia provides care and social services to some of the most vulnerable people in their communities. Their operational complexity has increased significantly, so they contacted us to see if we could help them strengthen their approach to enterprise risk management, to ensure they would have effective governance.

Our Senior Risk Consultant worked closely with Churches of Christ's Board Directors, Executives and a selection of Senior Managers – in specially devised workshops – to identify key risk themes against the organisation's strategic objectives. These workshops were key in helping them to launch and roll out their new strategic plan.

Ansvar worked with Churches of Christ to implement a comprehensive review and change management process that systematically enhanced the risk management framework of the organisation. And the fact that they chose to renew their insurance with us was largely down to the quality of Enterprise Risk Management work provided and the confidence in Ansvar Risk and the trusted relationships we've built.

"Ansvar's history, knowledge and expertise within these segments was important to our decision to continue our long-term relationship as we look to ensure we not only have the best policies in place but also a befitting Risk Management programme.

Greg McLean,
National Insurance Manager
Churches of Christ Australia

Non-Financial Information Statement

Non-financial information

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

Non-financial information	Disclosure	Section	Pages
Business model	Our business model and information on how we do business differently	Strategic report – Our Business model and strategy	40
Key performance indicators (KPIs)	Our KPIs set out how we are doing against our strategic goal	Strategic report – Strategy in action	44
Principal risks	Our key risks and their management	Strategic report – Principal risks	68
Our policies	We have a range of policies and guidance in place to support the key outcomes for our stakeholders. These also ensure consistent governance on environmental matters, our employees, social matters, human rights and anti-bribery and corruption	See below	

Our key policies / statements of intent

Environmental matters

- We are committed to running the business in a sustainable way to tackle climate change and encourage others to do more.
- We assess performance against ClimateWise reporting which is aligned to Taskforce on Climate-related Financial Disclosures (TFCD) reporting.
- We aim to reduce our direct impact on the environment and seek to use renewable sources of energy.
- Other information on environmental matters is included within the Our environment section of the Corporate responsibility report on page 80.

Employees

- Our Code of Conduct policy is centred on 'Doing the right thing' and sets the standards of conduct and behaviour expected from employees.
- The Board aims to ensure it is comprised of persons who are fit and proper to direct the business. The Board's diversity policy sets out the approach to diversity in the leadership population.
- Other information on our commitments to supporting diversity and development is included in the workplace section of the Corporate responsibility report on page 80. Also included within the Corporate Governance report on page 106 is information about the composition and diversity of the Board.

Social matters

- We were founded over 130 years ago with a charitable purpose and this remains what motivates us today. We believe business has a social responsibility and should give more to support charities and communities. More information about how we support our communities can be found in the Corporate responsibility report on page 80. The Group does not make political donations.
- Our tax strategy supports our group strategy and the ethical way we do business. We are committed to managing all aspects of tax transparently and in accordance with current legislation. We work to achieve the spirit of legislation and not just the letter of the law in each tax jurisdiction. Our tax strategy is available on www.ecclesiastical.com

Human rights, anti-bribery and anti-corruption

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

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Section 172 Statement

This section of the Strategic Report describes how the directors have had regard to the matters set out in section 172(1) (a) to (f), and forms the directors' statement required under section 414CZA, of the Companies Act 2006. The Directors recognise that the long-term success of the Group is dependent on having regard to the interests of its stakeholders. The Board has identified and documented its stakeholders in the Group Governance Framework. Key stakeholders include its shareholder, employees, customers and clients, regulators and intermediary partners (including brokers and other suppliers). Stakeholder engagement is considered as part of the decision making process of the Board. Given the new disclosure requirements, board and committee papers templates were updated to better focus on stakeholder interest, which has been embedded across the Group.

Strategic Report approval

The Strategic Report, outlined on pages 24 to 92, incorporates the Chief Executive's Review, the Business Model and Strategy, the Key Performance Indicators, reviews of Financial Performance and Position and Risk Management, the Corporate Responsibility Report and the Section 172 Statement and, when taken as a whole, is considered by the directors to be fair, balanced and understandable.

By order of the Board

Mark Hews
Group Chief Executive
17 March 2020

'Key issues we continue to focus on include climate change, cyber security, charitable giving, diversity and governance.'

Section Three

Governance

Board of Directors

David Henderson (a) (b) (e)

Chairman, Independent Non-Executive Director
David Henderson was appointed to the Board in April 2016. David began his career specialising in personal tax and UK trusts. He spent ten years as a banker with Morgan Grenfell and, following that, 11 years in financial services executive recruitment with Russell Reynolds Associates. He joined the Board of Kleinwort Benson Group plc as Personnel Director in 1995. He was appointed Chief Executive of Kleinwort Benson Private Bank Ltd (now Kleinwort Benson) in June 1997. He was Chairman of Kleinwort Benson from 2004 to 2008 and a Senior Adviser to the Bank until 2019. He holds several external Non-Executive Directorships.

Denise Cockrem

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

Mark Hews

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

Andrew McIntyre (c) (d)

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

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 (b) (c) (d)

Senior Independent Non-Executive Director
Chris Moulder was appointed to the Board in September 2017. Chris is also a director of the company's ultimate parent, Allchurches Trust Limited. 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) (b) (e)

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

S. Jacinta Whyte

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

Angus Winther (a) (e)

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

Key to membership
of Group Board Committees

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

The Very Reverend Christine Wilson (b) (e)

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 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.

Francois-Xavier Boisseau (c) (d)

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

Neil Maidment (c) (d) (e)

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

John Hylands resigned as a director on 19 March 2019.
Tim Carroll resigned as a director on 31 December 2019.

Board diversity

	2019	2018
Balance of Non-Executive Directors and Executive Directors		
Non-Executive Directors : Executive Directors	8:3	7:2
Gender Balance		
Male : Female	7:4	6:3
Length of Tenure		
(Chairman and Non-Executive Directors)		
0 – 3 years	5	3
3 – 6 years	2	2
6 – 9 years	1	1
10 years +	0	1
Geographical Mix		
United Kingdom	9	7
Rest of Europe	1	1
North America	1	1
Rest of World	0	0
Age		
35 – 45	0	0
45 – 55	2	1
55 – 65	8	6
65 +	1	2

Directors' Report

The directors submit their Annual Report and Accounts for Ecclesiastical Insurance Office plc, together with the consolidated financial statements for the year ended 31 December 2019. The Group Chief Executive's Review, Strategic Report and Corporate Governance section (this includes Board Governance, the Group Finance and Investment Committee Report, the Group Nominations Committee Report, the Group Risk Committee Report, the Group Audit Committee Report, and the Group Remuneration Report) are all incorporated by reference into this Directors' Report.

Principal activities

The Group operates principally as a provider of general insurance in addition to offering a range of financial services, with offices in the UK, Ireland, Canada, and Australia. A list of the Company's subsidiary undertakings are given in note 34 to the financial statements on page 242 and details of international branches are shown on page 251.

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 96 to 98.

John Hylands resigned as a director and Chairman of the Company on 19 March 2019 and was succeeded by David Henderson as Chairman.

Tim Carroll resigned as a Non-Executive Director on 31 December 2019. Francois-Xavier Boisseau and Angus Winther were appointed as Non-Executive Directors on 19 March 2019. In addition, Neil Maidment was appointed as a Non-Executive Director on 6 January 2020.

Denise Cockrem, Group Chief Financial Officer was appointed as an Executive Director on 6 September 2019.

In line with the Financial Reporting Council's (FRC) 2018 UK Corporate Governance Code (the Code), the Board has voluntarily chosen to comply with the recommended annual re-election of directors. With the exception of Christine Wilson who will retire at the annual general meeting (AGM), all directors who have served since the last AGM will be proposed for re-election at the forthcoming AGM. Mrs Cockrem and Mr Maidment 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 2019. 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 2019:

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 (2018: £9,181,000).

The directors do not recommend a final dividend on the Ordinary shares (2018: £nil), and no interim dividends were paid in respect of either the current or prior year.

Charitable and political donations

Charitable donations made in the year amounted to £32.5 million (2018: £18.8 million).

During the last 10 years, a total of £188.2 million (2018: £165.0 million) has been provided by Group companies for church and charitable purposes.

It is the Company's policy not to make political donations. No political donations were made in the year (2018: £nil).

Financial instruments

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

Employees

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

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

Throughout the employee lifecycle from recruitment onwards, we carefully consider adjustments to our processes and practices and look for solutions to remove barriers for those employees with disabilities. When needed, we engage with third-party and Occupational Health specialists who provide us with expert advice and ensure we are offering the best support we can. Through our adjusted work approach, we provide an environment in which disabled employees can fully participate in all opportunities provided by the Group from continued employment to training, job moves and promotions.

In 2019, we gave additional focus to mental health. Partnering with a mental health charity, we conducted an audit of our approach to supporting employees who face mental health issues to identify where improvements could be made. We also provided specialist training to managers to help support positive management of mental health issues in our workplace.

Principal risks and uncertainties

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

Events after the reporting period

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

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 £857.9m, 91% of which are liquid (2018: financial investments of £799.0m, 92% liquid), cash and cash equivalents of £74.8m and no borrowings (2018: cash and cash equivalents of £109.4m 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, is well placed to withstand significant short-term market disruption 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 the auditor

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

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

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

The Group Audit Committee reviews the appointment of the auditor, including the auditor's effectiveness and independence, and recommends the auditor's reappointment and remuneration to the Board. Further details are disclosed in the Group Audit Committee Report on page 124.

In accordance with Section 489 of the Companies Act 2006, a resolution proposing that PricewaterhouseCoopers LLP be appointed 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

David Henderson
Chairman
17 March 2020

Mark Hews
Group Chief Executive
17 March 2020

Section Three

Governance

Corporate Governance

The Board of directors is committed to applying the highest standards of corporate governance and believe that the affairs of the Company should be conducted in accordance with best business practice. Accordingly, although the Company does not have shares with a premium listing on the London Stock Exchange and, therefore, does not need to adhere to requirements, the Company has voluntarily chosen to comply with the Principles and Provisions of the 2018 UK Corporate Governance Code (the Code) throughout the year ended 31 December 2019 where relevant. A copy of the Code can be found on the FRC's website. The Corporate Governance Statement also includes the reports from Group Audit Committee, the Group Finance and Investment Committee, the Group Nominations Committee, Group Remuneration Committee and the Group Risk Committee.*

The following aspects of the Code are not considered appropriate for the Company given ownership structure:
- provisions relating to outcomes from shareholder votes (Provision 4)
- shareholding requirements for Executive Directors (Provision 36).

During the year, the Company did not comply with the following provision of the Code:
- with the exception of the GCEO, pension contribution rates for Executive Directors are aligned to those available to the wider workforce (Provision 38). Further information is contained in the Directors' Remuneration Report. Given current market practice, the Group Remuneration Committee is currently content with the contribution rates for all Executive Directors. This will be monitored as part of the Committee's review of market developments.

Board leadership and company purpose

Role of the Board

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

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

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

* Committees of the Company also perform the same Committee functions for Ecclesiastical Insurance Group plc, the Company's immediate parent undertaking.

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

Purpose, value and strategy

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

See page 40 for more details.

It is the Board's policy to record any unresolved concerns about the running of the Company or any proposed action in the Board minutes. During 2019, no director had any such concerns.

Culture

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

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

Our Target Culture

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

Board activity
During 2019, the Board made decisions on the following business issues and routine matters:

Strategic matters
Group Chief Executive's Reports
Group Chief Financial Officer's Report
Financial performance and statements
Charitable donations and gift aid
Performance, strategic and business plans for the Group
Views from the Shareholder
Broker Acquisition Strategy
Ansvar Australia Update

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

Operational matters
Internal Model
Group reinsurance arrangement
Health and Safety
Employee engagement
Directors and Officers Liability Insurance
Group Technical Provisions
GI Claims Reserves Adequacy

Projects and other matters
Directors' travel and expenses policy
Project Horizon (UK and Irish GI IT and transformation programme)
IICSA

Governance and regulatory matters
Board and Committee composition and delegation
Board Diversity Policy
Capital requirements, solvency position and ORSA
Determining NEDs' fees for recommendation at a general meeting
Audit Tender

Stakeholder engagement

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

The Board has identified its stakeholders and associated engagement mechanisms. Employees, customers, shareholders, suppliers, reinsurers, external auditors, regulators, credit rating agencies, banks and other creditors, trade unions and community groups have been identified as current stakeholders. Further information is provided in the Corporate Responsibility Report.

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

Protocols for the exchange of information between Allchurches Trust Limited and Ecclesiastical Insurance Group plc and its subsidiaries (including Ecclesiastical Insurance Office plc) are in place and cover performance, operations and financial position. There is at least one "Common Director" (i.e. a Director who is a member of the Boards of Allchurches Trust Limited, Ecclesiastical Insurance Group plc and Ecclesiastical Insurance Office plc) who is expected to attend every Board Meeting. Tim Carroll and Chris Moulder (until the former's resignation from the Company on 31 December 2019) were appointed as "Common Directors". The Common Directors present a summary of highlights from Allchurches Trust Limited Board meetings to the Directors. There is also engagement between respective Board and Committee Chairmen and the Group Chief Executive Officer. 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 interest between the two companies are managed is in place.

As was done in August and November 2019, when determining if it is appropriate to make a distribution in the form of a grant to the company's ultimate parent undertaking, Allchurches Trust Limited, the Board considers advice from the Group Chief Financial Officer. A key area for the Board's deliberation is the company's capital position and the affordability of the grant based on a range of stressed circumstances as well as the views of the Chairman of Allchurches Trust Limited.

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

- Caroline Taylor was appointed as the designated Non-Executive Director for employee engagement on 4 February 2020. The designated Non-Executive Director is briefed on employee survey results and feedback and reports relevant findings to the Board;
- a variety of communication channels including intranet, all staff emails (including weekly news, results, achievements and changes), briefings, conferences and publishing of financial reports and feedback and discussion is adopted (including to make employees aware of financial and economic factors affecting the performance of the company);
- an engagement survey (MySay survey) is conducted twice a year across all companies and territories in the Group. The survey allows the tracking of engagement and provides employee views on a range of matters affecting them. The results are reviewed at both Board and Group level and are cascaded to individual teams. Managers discuss local results with employees and create action plans to respond to concerns;
- whistleblowing policy and procedures;
- direct engagement and consultation through employee representative forums including the Group's recognised Union and informal Employee Working Groups (such as 'The Explainers' and 'The Office Life Network') is encouraged;
- 'Town Hall' meetings are hosted by senior management where employees can ask questions and provide feedback;
- a performance-related bonus scheme is operated, which directly links individual objectives and business performance to encourage employees to participate in the overall financial success of the Group; and
- a range of training, development and volunteering activities are available to employees, including technical courses, mentoring, coaching and community opportunities.

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

considered customers' needs, knowledge and expectations as part of the development of the next chapter for the Group and as part of Project Horizon (the GI IT and Transformational Programme).

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

Supplier engagement

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

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

Community and environment

Executive Directors have considered an initial plan to address climate change requirements across the Group on a consolidated basis. Moreover, recognising the importance of climate change, the Board agreed to add it as a separate risk to the Group Risk Register.

During the year, the Board has considered the payment of grants to Allchurches Trust Limited for charitable purposes. It also monitors outcomes from the Greater Good Programme strategic initiative and is proud that the Group continues to retain its leading position as a corporate donor: Ecclesiastical is the UK's fourth largest corporate donor and the only insurer in the top ten[1].

For employee-led community investment, the Group ranks second in the UK[2].

The Group is focused on long-term and strategic charitable giving by tackling the shortage of heritage skills working with a number of partners including the Prince's Foundation. A key priority for the Group's giving is to support young people's mental health and has been working with the oldest children's charity, Coram. The Group's businesses continue to support causes which are important to their customers and contribute to their local communities. Employees are supported to give to causes they care about through MyGiving. This enables them to offer support with volunteering, small grants and fundraising matching to create direct involvement and help to drive charitable giving at a local level.

Regulators

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

Whistleblowing

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

The Group's approach to whistleblowing is set out in a Standard and Guidance Document (which is available internally on the Group's intranet). The Chairman of the Group Audit Committee is designated the Group's 'Whistleblowing Champion' having responsibility to ensure the independence, autonomy and effectiveness of the Group's policies and procedures on whistleblowing including the procedures for protection of staff that raise concerns from detrimental treatment.

[1] Directory for Social Change, the UK Guide to Corporate Giving 2018-19

[2] GivX, community investment benchmark 2019

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

During the year, Group Internal Audit undertook a review of whistleblowing arrangements. The output from this work will be taken forward by Group HR. This includes developing reportable metrics, providing line managers with material to help recognise potential instances of whistleblowing and providing training to the whistleblowing contacts named in the policy to ensure they can handle a whistleblowing incident correctly.

Conflicts of Interest

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

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

It is the Board's policy to record any unresolved concerns about the running of the Company or any proposed action in the Board minutes. During 2019, no director had any such concerns.

Division of responsibilities

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

The Chairman and the Group Chief Executive

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

Senior Independent Director

Chris Moulder was appointed as the Senior Independent Director (SID) on 14 January 2020. The SID supports and acts as a sounding board for the Chairman and is responsible for overseeing the governance practices of the Company and leading the directors in their appraisal of the Chairman. Along with the Chairman, the SID is the primary contact for the shareholder and they meet regularly with the shareholder to share and understand views.

Non-Executive Directors

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

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

Board Committees

The Group has five Board Committees which are shown above.

Details of all the Board Committees are contained within their respective reports that follow: the Group Finance and Investment Committee Report on page 114; the Group Nominations Committee Report on page 116; the Group Risk Committee Report on page 122; the Group Audit Committee Report on page 124; and the Group Remuneration Report on page 134.

Attendance at meetings

Directors are required to attend all Board meetings and strategy days as well as Committee meetings where they are members. In 2019, the Board held five scheduled meetings, three ad hoc meetings and a strategy day. In addition, the Board participated in regular training sessions.

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

Below is a record of the directors' attendance for the Board meetings (including the strategy day) during 2019:

Board attendance table

Executive Directors	Director since	Meetings eligible to attend	Meetings attended
Mark Hews	June 2009	9	9
S. Jacinta Whyte	July 2013	9	8
Denise Cockrem	September 2019	2	2
Non-Executive Directors	**Director since**	**Meetings eligible to attend**	**Meetings attended**
David Henderson (Chairman)	April 2016	9	8[1]
Francois-Xavier Boisseau	March 2019	7	6[3]
Tim Carroll	April 2013	9	8[1]
Andrew McIntyre	April 2017	9	8[1]
Chris Moulder	September 2017	9	8[1]
Caroline Taylor	September 2014	9	7[1]
Christine Wilson	June 2012	9	2[2]
Angus Winther	March 2019	7	6[1]
John Hylands (former Chairman)	September 2007	2	2

[1] It had been agreed in advance that only the quorum of the Board (namely two members) needed to attend a telephone Board Meeting considering custody arrangements. All members of the Board were given opportunity to provide feedback on the business of the meeting ahead of the call.

[2] The Very Reverend Christine Wilson did not attend seven meetings due to taking a leave of absence from the Group for personal reasons from April 2019.

[2] Mr Boisseau was unable to attend an ad hoc Board Meeting called at the last minute to consider the potential Ecclesiastical Insurance Group plc investment in the Lloyd and Whyte Group Limited.

Company Secretary

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

Internal Controls

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

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

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

By order of the Board

Mrs. R. J. Hall
Group Company Secretary
17 March 2020

Group Finance and Investment Committee Report

Chairman's introduction

I am pleased to present this report, my first as Committee Chair, describing the work undertaken by the Committee during the past year. I was appointed as Chair of the Committee on 1 January 2020, having been a member since April 2019. I take this opportunity to thank Tim Carroll, who stepped down from the Committee on 31 December 2019, for his Chairmanship since 2014. Mark Hews stepped down from the Committee on 27 November 2019 and we are grateful for his contribution.

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	7	7
Caroline Taylor	March 2016	7	7
David Henderson	June 2016	7	7
Mark Hews***	August 2018	7	6
Angus Winther****	April 2019	5	4

* Mark Hews and Angus Winther were unable to attend a meeting called at short notice
** Tim Carroll was the Chair and a member of the Committee until 31 December 2019
*** Mark Hews was a member of the Committee until 27 November 2019
**** Angus Winther was appointed to the Committee on 3 April 2019 and was appointed Chair on 1 January 2020

Committee meetings

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

The Committee held four scheduled and three 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 considers and approves major financial decisions including acquisitions and disposals on behalf of the Board.

During the year, the Committee reviewed the Group's business plan investment assumptions; and the overall investment strategy. The latter included consideration of the ongoing use of equity derivatives; the approach and classification of listed infrastructure; concentration risk and the management of cash.

The Committee also reviewed a major investment proposal for Ecclesiastical Insurance Group plc, which was subsequently agreed by the Board.

The Committee considered the outlook for the financial markets and in particular the likely impact of the UK's withdrawal from the European Union on the Group's investment portfolio. Together with the Group Risk Committee, the Committee also oversaw a review of the Group's Authorities Framework. The Committee also reviewed its Terms of Reference and made recommendations to the Board. In addition, the Committee undertook a review of its own performance and set objectives.

By order of the Board

Angus Winther
Chairman of the Group Finance and Investment Committee
17 March 2020

Group Nominations Committee Report

Dear Stakeholder
I am pleased to present to you the report of the work of the Group Nominations Committee for 2019. I was appointed as Chair of the Committee on 14 January 2020 having been a member of the Board since September 2017. Caroline Taylor and I were appointed as members of the Committee in November 2019. I would like to take the opportunity to thank The Very Reverend Christine Wilson and David Henderson for their leadership of the Committee during 2019. John Hylands and Tim Carroll stepped down from the Committee during the year and we are grateful for their contribution.

Committee Composition

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

Committee member	Member since	Meetings eligible to attend	Meetings attended
Chris Moulder[1]	November 2019	0	0
Christine Wilson[2]	March 2016	4	2
David Henderson	January 2019	4	4
Caroline Taylor[3]	November 2019	0	0
John Hylands[4]	May 2013	2	2
Tim Carroll[5]	January 2019	4	4

[1] Chris Moulder was appointed to the Committee on 27 November 2019.
[2] The Very Reverend Christine Wilson did not attend two meetings due to taking a leave of absence from the Group for personal reasons from 18 April 2019.
[3] Caroline Taylor was appointed to the Committee on 27 November 2019.
[4] John Hylands was a member of the Committee until 19 March 2019.
[5] Tim Carroll was a member of the Committee until 31 December 2019.

Meetings of the Committee

The Committee held three scheduled meetings in 2019 (in February, June and October) which were attended by the Group Chief Executive and Group Company Secretary (2018: three meetings). In addition an ad hoc meeting was held in January to consider an update on NED recruitment.

Composition of the Board and senior management

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

During the year, the Committee recommended that only independent NEDs should be members of the Board Committees, which was accepted by the Board.

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, was to meet the targets set out in the 'Hampton-Alexander Review', being 33% of women on boards. As at 17 March 2020, the Board had appointed four female members in a current membership of 11, which meets the 2020 targets. The Board via the Group Nominations Committee will consider the progression of women to key roles including Chair, Senior Independent Director and Executive Directors as part of its regular review of succession planning. In addition, the Board has agreed to have regard to the Parker Review by 2020 looking across the composition of the various Boards of Directors that comprise the wider Ecclesiastical Group. This target has been met.

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, age, disability, 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. Given various changes planned to the Board in 2020, it is recognised that female representation on the Board will decrease in the short term. The Committee will actively seek to address this matter during the course of 2020. At 17 March 2020, female representation on the Group Management Board stands at 43%.

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.

Further information on diversity is provided on page 82.

Directors' length of service

The Committee monitors the length of tenure of all directors as shown in the table on page 99.

Skills and experience on the Board

The skills and experience of Board members is provided on page 96.

Independence and time commitment

The Board believes that all the NEDs were independent throughout 2019. Independence is reviewed as part of each director's annual appraisal, considered by the Committee, and agreed by the Board annually. In 2019, one NED, John Hylands, served for more than nine years on the Board and retired in March 2019 and Christine Wilson has served for more than six years and will retire in June 2020. In addition, two directors, Tim Carroll and Chris Moulder were directors of Allchurches Trust Limited. The Committee has considered the circumstances and relationships of all NEDs and, following rigorous review, the Committee confirmed to the Board that all NEDs remained independent in character and judgement. No individual participated in the discussions relating to their own independence.

The Committee evaluates the time NEDs spend on the Company's business annually and is satisfied that, in 2019, the NEDs continued to be effective and fulfilled their time commitment as stated in their letters of appointment.

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

Succession planning

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

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

Appointments to the Board

Chairman

John Hylands resigned as Chairman on 19 March 2019. David Henderson was appointed Chairman on the same date. He was independent on appointment as Chairman. An explanation on the associated appointment process is provided in the 2018 Annual Report and Accounts on page 109.

Senior Independent Director, Chris Moulder

During the year, the Board agreed that Mr Chris Moulder would be appointed Senior Independent Director to succeed Dean Wilson.

Non-Executive Directors Francois-Xavier Boisseau and Angus Winther.

An Appointments Panel comprising Christine Wilson, Tim Carroll, David Henderson and Mark Hews was formed to commence the recruitment of two additional Non-Executive Directors, one from an insurance and broking background and the other from an investment or corporate finance background. 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) 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 and Mr Boisseau and Mr Winther were appointed as Non-Executive Directors at the conclusion of the Board Meeting held on 19 March 2019.

Neil Maidment

Following his retirement as an Executive Director from Beazley plc Neil Maidment was recommended to the Company as a potential candidate to succeed Mr Carroll. An extensive interview process was undertaken with the Board. Neil Maidment was appointed to the Board on 6 January 2020.

Common Directors, Chris Moulder

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

Group Chief Financial Officer, Denise Cockrem

Ian Campbell resigned as Chief Financial Officer in August 2018. Denise Cockrem joined the Group as Group Chief Financial Officer and was appointed as an Executive Director on 6 September 2019.

Induction and training

All new directors undertake a formal, comprehensive and tailored induction to the Group upon joining the Board. This includes sessions with the Group Company Secretary, Group Compliance, Group Finance, Group Risk, Actuarial, Group Strategy, Human Resources and heads of the Group's trading businesses. New directors also meet individually with the Chairman of Allchurches Trust Limited, the Group Chairman, the Senior Independent Director, and each of the Executive Directors. This is to ensure they understand the significant risks, strategic and commercial issues affecting the Group and the markets in which it operates as well as their duties and responsibilities as a director.

The Group Company Secretary maintains annual CPD records for all directors, which the Chairman reviews as part of their annual appraisal. Training and development needs of Board members are also reviewed by the Committee. In 2019 a number of training sessions took place and covered the 2018 UK Corporate Governance Code (by Ernst & Young), Investment Training – Actions in a volatile market (by the Actuarial Function Director), Group Catastrophe (by the Claims Director) Management and Innovation in Insurance (by the Head of Business Improvement and Innovation). In 2020 sessions have been planned on the Internal Model (by the Group Chief Actuary) and Safeguarding (by the Claims Director).

Board evaluation

It is the Board's policy for its evaluations to be facilitated every two years.

The Committee led an external evaluation of the Board and Committees, assisted by the Company Secretariat. An external board evaluation provider, Grant Thornton (which acts as our co-source provider for internal audit on UK and Canada and has no other connection with the Group), conducted this evaluation. The outcome of the evaluation will be considered by the Board at their meeting on 17 March 2020. The Committee will monitor the implementation of all recommendations arising from the review.

A desk-based review was undertaken including consideration of the Group's Governance Framework and Board and Committee packs. In addition, questionnaires were completed by directors and one-to-one interviews held. Grant Thornton also attended Board and Committee Meetings in Q1 2020 to enable them to evaluate the Board's processes and behaviours.

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

By order of the Board

Chris Moulder
Chairman of the Group Nominations Committee
17 March 2020

> '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.'

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Group Risk Committee Report

Chairman's introduction

I am pleased to present this report, describing the work undertaken by the Group Risk Committee during the past year. The Group has voluntarily chosen to include a Group Risk Committee Report in addition to the disclosures in the Risk Management Report and Principal Risks sections starting on page 62. Francois-Xavier Boisseau was appointed as a member of the Committee in April 2019. We also welcome Neil Maidment, who joined as a member of the Committee on 2 March 2020. Jacinta Whyte and Tim Carroll stepped down from the Committee in November and December 2019, respectively. John Schofield was appointed Group Compliance Director in December 2019 following John Titchener's retirement. Debra Weekes has resigned as Group Chief Risk Officer and will leave the business in July 2020. The process to recruit her successor is underway and the Group Head of Risk will act as Chief Risk Officer in the interim if required.

Membership

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

Committee member	Member since	Meetings eligible to attend	Meetings attended
Chris Moulder (Chairman)	September 2017	5	5
S. Jacinta Whyte*	February 2014	5	5
Tim Carroll**	August 2013	5	5
Andrew McIntyre	August 2017	5	5
Francois-Xavier Boisseau***	April 2019	4	4

* Jacinta Whyte stepped down from the Committee on 27 November 2019
** Tim Carroll stepped down from the Committee on 31 December 2019
*** Francois-Xavier Boisseau was appointed to the Committee on 3 April 2019

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 Group Compliance Director.

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

The Group's principal risks and uncertainties are set out on pages 68 to 75. The Committee has reviewed these in detail and is comfortable that the business has addressed them appropriately within its ongoing operating model and identification of strategic priorities.

A focus of the Committee's work this year has been to ensure transition of the Internal Model post-regulatory approval. 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 also oversaw the successful application of a major model change in the year. Finally, the Committee continues to review the Group's ongoing capital and solvency requirements and other key Model uses.

Another key focus for the Committee in 2019 was to oversee a review of the Board's risk appetite. This has included reviewing the Group Chief Risk Officer's recommendations to define those appetites which are reserved for the Board and delegate the remainder to the Group Management Board (including allowing the Group Management Board to directly own some of the less material measures). This work concluded in November, culminating in a recommendation to the Board, which was approved.

Additionally, during the year, the Committee has overseen the ongoing development of the Group's data management model; 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.

Together with the Group Finance and Investment Committee, the Committee also oversaw a review of the Group's Authorities Framework. The Committee also reviewed its Terms of Reference and made recommendations to the Board. In addition, the Committee undertook a review of its own performance and set objectives.

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

The Director of Group Compliance also reports to the Committee regularly and meets with the Committee at least once a year without management present.

By order of the Board

Chris Moulder
Chairman of the Group Risk Committee
17 March 2020

Group Audit Committee Report

Chairman's overview

I am pleased to be able to report on the Group Audit Committee's safeguarding of the interests of Ecclesiastical for the benefit of its shareholder. The Committee plays a crucial role in oversight and scrutiny of the Group's financial reporting, internal and external audit arrangements, internal control environment and risk management.

Francois-Xavier Boisseau joined the Committee in April 2019. We also welcome Neil Maidment, who joined as a member of the Committee on 2 March 2020. Tim Carroll stepped down at the end of 2019 after serving on the Committee since April 2013. Members of the Committee were delighted that Tim Carroll has taken up the position of Chairman at our ultimate parent company and charity, Allchurches Trust Limited. Dan O'Loughlin was confirmed as the Group's Chief Internal Auditor in June 2019, having been appointed on an acting basis in January 2019.

The Committee has considered the processes underpinning the production and approval of this year's Annual Report & Accounts. The significant accounting and reporting issues considered in detail by the Committee are set out on pages 130 to 131.

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.

In 2019 we completed a rigorous external auditor tender process. This resulted in the selection of PricewaterhouseCoopers LLP (PwC) who will be the Group's statutory auditor for the year ending 31 December 2020. The Committee has overseen the start of preparations for the auditor transition and look forward to working with PwC. I would like to thank Deloitte LLP for the audit service they have provided the Group with over the past 22 years.

During 2019, we have overseen the successful implementation of the new leases accounting standard, IFRS 16 and preparation is underway for the new insurance contracts standard, IFRS 17.

Andrew McIntyre
Chairman of the Group Audit Committee

Members of the Committee

Committee members have been selected with the aim of providing the wide range of financial, risk, control and commercial expertise necessary to fulfil the Committee's duties. Further information about the experience of each member of the Committee can be found on page 96. The Board considers that Andrew McIntyre has recent and relevant financial experience and accounting competence and that the Committee as a whole is appropriately competent in the sectors within which the Group operates. The members of the Group Audit Committee who were appointed by the Board and their attendance at the nine meetings held during the year are shown below. Francois-Xavier Boisseau, Tim Carroll and Chris Moulder were unable to attend one or more unscheduled meetings called at short notice.

Committee member	Member since	Meetings eligible to attend	Meetings attended
Andrew McIntyre (Chairman)	April 2017	9	9
Francois-Xavier Boisseau	March 2019	7	5
Tim Carroll*	April 2013	9	8
Chris Moulder	September 2017	9	8
Caroline Taylor	February 2018	9	9

* Tim Carroll was a member of the Committee until 31 December 2019
** Caroline Taylor stepped down from the Committee on 27 November 2019.

Committee meetings

In addition to the members of the Committee, the Chairman of the Board, the Group Chief Executive, the Group Chief Financial Officer, the Deputy Group Chief Executive and the Group Chief Internal Auditor attend meetings by invitation. Other relevant people from the business are invited to attend certain meetings in order to provide insight into key issues and developments. The Group's external auditor is invited to attend meetings and, during 2019, attended all six scheduled meetings.

During the year, the Committee met privately with the Group Chief Internal Auditor and the Group's external auditors without management present. The Committee reviews its terms of reference, its performance and activities over the previous year as part of an annual cycle to confirm that its activities were in line with its remit.

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 Committee's effectiveness annually;
- 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 risk management.

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 were initially appointed as the Group's external auditor in 1998 and were re-appointed in 2015 following a formal tender process. The external audit has been led by the Deloitte senior statutory auditor Paul Stephenson for five years. The Company confirms that it complied with the provisions of the Competition and Markets Authority's Order for the financial year under review.

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

The Committee is responsible for the development, implementation and monitoring of the Group's policy on the provision of non-audit services by the external auditor. The policy is reviewed annually by the Committee. The purpose of the policy is to safeguard the independence and objectivity of the external auditor and to comply with the ethical standards of the Financial Reporting Council (FRC).

The Committee oversees the plans for the external audit to ensure it is comprehensive, risk based and cost effective. Deloitte drafted their audit plan for the 2019 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 169. In order to focus the audit work on the right areas, the auditors identify particular risk issues based on various factors, including their knowledge of the business and operating environment, 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 2019, the Group was charged £676,000 (ex VAT) by Deloitte for audit services. The fees for other assurance services required by legislation and/or regulation amounted to £164,000, making total fees from Deloitte of £840,000.

There were no other non-audit services provided by Deloitte during the year. More detail can be found in note 12 to the financial statements on page 213.

Audit tender

Last year's Committee report referred to a decision to commence an audit tender process in 2019 to take effect for the financial year ending 31 December 2020. The tender was completed in 2019 and resulted in the proposal, subject to shareholder approval at the 2020 AGM, to appoint PricewaterhouseCoopers LLP (PwC) as external auditor.

The scope of the tender consisted of Ecclesiastical Insurance Office plc, its immediate parent Ecclesiastical Insurance Group plc, along with statutory audits of subsidiaries of Ecclesiastical Insurance Group plc. The scope excluded dormant companies and those exempt from statutory audit.

The purpose of the audit tender was to select the most appropriate auditor in terms of audit quality and value. The Committee had ultimate authority over the competitive tender process and the evaluation of firms, and for making the recommendation for appointment to the Board. To ensure a transparent and robust selection process, the Committee was responsible for overseeing the design and execution of the tender and selecting the evaluation criteria. The Committee was supported by the Group Chief Financial Officer and members of Group Finance team.

Firms were evaluated using the following selection criteria:

- Audit firm and auditor independence including the firm's practices that would ensure compliance with independence requirements and freedom from any conflicts of interest.
- Strength of the audit team, including relevant industry experience and working style of the lead partner, actuarial partner and senior members of the audit team.
- Technical criteria, including the proposed audit approach, including transition, and use of tools in the audit.
- Track record of audit quality, including reviews and findings from the Financial Reporting Council's Audit Quality Reviews.
- Ability to provide insight and challenge.
- Cultural fit, including whether the firm's value and ethics are consistent with Ecclesiastical's.
- Audit fees that provide value for money without compromising audit quality.

There were several stages in the audit tender process. First, an assessment of the audit market was made to identify firms to be invited to tender, which resulted in expressions of interest being sought from six firms. Shortlisted firms were invited to put forward proposals to provide audit services. A data room was opened for firms to receive information and responses to questions. Firms were invited to meet with Ecclesiastical's key business leaders, including the Group Chief Executive Officer, Deputy Group Chief Executive Officer, Group Chief Financial Officer and Group Chief Risk Officer. Firms were also given the opportunity to meet with Committee members and certain members of management who work with the Group's auditors.

Firms were asked to respond to and provide views on some topical and technical areas to allow them to demonstrate their technical capability relevant to the Ecclesiastical audit. Written proposals were then received and firms gave final oral presentations of their proposal to certain members of the Committee, including the Group Chief Financial Officer and key members of management in attendance.

The Committee evaluated the performance of firms across the entire tender process and concluded that each shortlisted firm had the experience and competencies required to carry out an effective audit. The Committee recommended a preference for PwC due to their demonstration of actuarial expertise and depth of knowledge of the business and industry the Group operates in. This recommendation made to the Board resulted in a resolution by the Board to recommend PwC to shareholders at the 2020 AGM.

The Committee and the Group's Finance teams have been and will be working closely with Deloitte and PwC during the 2020 financial year to ensure an efficient and orderly transition of the external audit.

External audit effectiveness

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

The Committee reviewed a report based on questionnaires completed by senior management, business unit leaders and those members of staff most involved in the external audit process. The Committee recognised the strengths of the external auditor and provided challenge to the auditor for areas that could be improved.
The process demonstrated to the Committee that the external auditor continued to perform independently, effectively and to provide robust challenge. Following the review, the Committee recommended to the Board that Deloitte be re-appointed under the current external audit contract as auditor for the 2019 financial year.

Examination of acquisition activity

The Committee is also constituted as a committee of the Company's immediate parent Ecclesiastical Insurance Group plc and provides the same functions. During the year, the Company, Ecclesiastical Insurance Group plc, acquired a non-controlling equity interest in the specialist insurance broker Lloyd & Whyte. The Committee considered and examined various matters in relation to this transaction including the expected earnings contribution, application of IFRS control principles and financial reporting impacts further acquisition steps are expected to have.

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 Committee focused on the reporting requirements of the publicly filed SFCR and QRTs and privately filed RSR Annual Update.

The significant areas of focus considered by the Committee in relation to the 2019 accounts, and how these were addressed, are outlined below. These were discussed and agreed with management during the course of the year, and also discussed with 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 191.

Matter considered	Action
General insurance reserves The estimation of the 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. The Committee considered in detail the favourable development of prior years' reserves for the liability accounts and acknowledged the key drivers to be favourable experience on larger claims than expected. Taking into account the Group Reserving Actuary's assessment of the sufficiency of these reserves, the Committee challenged management on whether the proposed releases were reasonable and that the reserves remained appropriately prudent. The Committee continues to maintain a focus on the longer-term reserves relating to asbestos and PSA claims and reviewed actual claims experience against expectations throughout the year. The Committee noted and supported management's decision to continue to hold an additional margin in respect of future PSA claims as the IICSA investigations develop. Following all of our reviews and discussions, the Committee's opinion was that the reserving process and outcomes were robust and well managed and that the overall reserves set were reasonable as disclosed in notes 9 and 28 to 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') (the Group's life business) which set out recommendations for the basis and methodology to apply for: • the valuation of policy liabilities for inclusion in the report and accounts of ELL at 31 December 2019, and • the calculation of technical provisions in accordance with Solvency II regulations at 31 December 2019. 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 2018. The Committee reviewed the work done by the Chief Actuary to assess whether the methodology remained appropriate, with a particular focus on mortality assumptions, interest and inflation rate assumptions. Following its review, and after consideration of 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) to 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 2019) 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 paid particular attention to the business plans and management's proposed cash flows attributable to each Cash Generating Unit (CGU), and the determination of the discount rate used in the calculation. Detailed support for these assumptions was provided by management. The Committee considered the proposal and provided robust challenge to the assumptions, notably the evidence to support the discount rate and the appropriateness of the future cashflow assumptions. After its reviews, the Committee concluded that the assumptions were reasonable. Goodwill is disclosed in note 17 to 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 2019, 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 2019, the gap between CPI and RPI measures of inflation should be reduced to reflect the potential for changes to the RPI measure of inflation. The Committee requested management update the assumption used for future improvements in mortality annually. Following consideration, the Committee concluded that the assumptions proposed were appropriate and in line with normal market practice. After careful consideration of the requirements of International Financial Reporting Interpretations Committee 14 (IFRIC 14), the Committee concluded that recognition of the full surplus in the Group's main defined benefit scheme was appropriate. The impact of updating assumptions to reflect those in force at the balance sheet date on the valuation at 31 December 2019 are explained in note 19 to the financial statements on page 219.

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Fair, balanced and understandable

At the request of the Board, the Committee has considered whether in its opinion, the 2019 Annual Report and Accounts were fair, balanced and understandable and provided the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The Committee has reviewed and provided feedback on early drafts of the Annual Report and Accounts, highlighting any areas where further clarity was required in the final version.

The Committee was provided with comprehensive verification of all the information and facts in the Annual Report and Accounts, and any statements of belief were highlighted and considered separately by the Committee. 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. A suitably qualified employee of the Group, who does not work in a financial or actuarial area and is not involved in the production of the Annual Report and Accounts or financial results, reviewed a near-final draft and gave their opinion on whether they consider it to be fair, balanced and understandable. Guidance on what is meant by these statements and aspects the employee might wish to consider when forming an opinion was provided.

The employee produced a written report for the Committee which gave an overall opinion on the Annual Report and Accounts and also set out their view of the strengths and any areas for development. Following a review, the Committee was of the opinion that the 2019 Annual Report and Accounts was representative of the year and was fair, balanced and understandable.

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 106.

In reviewing the effectiveness of the system of internal control and risk management during 2019, the Committee has:

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

Internal control over financial reporting

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

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

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

Group Internal Audit (GIA)

GIA is monitored by the Committee and provides independent, objective assurance to the Board that the governance processes, management of risk and systems of internal control are adequate and effective to mitigate the most significant risks to the Group. GIA operates 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. In January 2019, the Committee appointed Dan O'Loughlin as Acting Group Chief Internal Auditor and, in July 2019, his permanent appointment was confirmed. The Group Chief Internal Auditor is accountable to the Committee Chairman 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 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.

Legal and regulatory developments

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

The year ahead

In 2020, the Committee will continue to provide oversight of financial reporting and internal controls of the Group. A key area of focus for the Committee will be the effective transition of the incoming statutory auditor to ensure that PwC is able to make effective preparations to become Ecclesiastical's auditor.

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

By order of the Board

Andrew McIntyre
Chairman of the Group Audit Committee
17 March 2020

Group Remuneration Report

Group Remuneration Committee Chair's statement

As Chair of the Group Remuneration Committee (the Committee), I am pleased to introduce the Group Remuneration Report for 2019 and to highlight some of the key aspects of the Committee's work during the financial year. I was appointed as Chair of the Committee on 21 June 2019, having been a member of the Committee since 2014. I would like to take this opportunity to thank David Henderson for his leadership of the Committee during 2018 and his ongoing support of the Committee's work. This year, Angus Winther joined the Committee in April 2019 and Chris Moulder stepped down from the Committee in November 2019. I would also like to welcome Neil Maidment, who became a member of the Committee and of the Group Risk and Group Audit Committees on 2 March 2020.

2019 performance and incentive outcomes

As described in the Strategic Report starting on page 16, the Group has delivered another strong set of results, with a robust set of underwriting results[1] across the Group of £20.0m (2018: £29.4m) and GWP growth of 10.4% to £394.0m (2018: £357.0m). Investment returns were particularly strong, with an investment income in the year of £34.8m (2018: £35.3m) and fair value gains of £52.1m (2018: fair value losses of £35.4m), resulting in pre-tax profits of £73.3m (2018: £15.4m).

In considering the annual bonus outcomes for Executive Directors, the Committee reflected on the financial, strategic, customer and conduct performance of the Group, including the very strong performance against Group PBT and COR targets, and the strong delivery against the Group's strategic change programme and customer and conduct targets. The Committee additionally gave consideration to the Group's contribution to the Independent Inquiry into Child Sexual Abuse, IICSA, as set out in the Chief Executive's report on page 24. Further details of performance against the targets set for 2019 are disclosed on page 152 of this report. In its assessment of individual performance during the year, the Committee recognised the excellent performance against Executive Directors' personal financial, strategic and wider objectives. Annual bonus awards for 2019 are 96% of maximum for the Group Chief Executive, 96% for the Deputy Group Chief Executive and 90% for the Group CFO reflecting the very strong performance of the Group during the year. In line with the Group's deferral policy, bonuses above 75% of the maximum are deferred for three years.

The long-term incentive plan (LTIP) granted in 2017 vested at 86%, reflecting the Group's very strong performance against the financial, strategic, customer and conduct targets over the 2017-2019 period.

Discretion

To ensure that results have been achieved within the Group's risk appetite and to inform the Committee's judgements in relation to any risk adjustment of awards, the Committee, supported by the Group Chief Risk Officer (CRO), considered risk management outcomes across the Group as part of its deliberations. Following this review, the Committee did not consider risk adjustment of the awards to be necessary. The Committee further agreed that the bonus and LTIP awards were a fair reflection of the overall performance achieved and, having considered all relevant factors, determined that no discretionary adjustment of awards was necessary.

Base salary

Executive Directors' salaries are reviewed at the same time as other employees. After careful consideration, the Committee decided that the base salaries of Executive Directors would be increased by 2.5% (effective 1 April 2020).

Key Committee activities during the year

During the year, the Committee reviewed the Group's Remuneration Policy and determined that it remains effective and continues to drive the sustained and long-term performance of the Group. The Committee determined that the remuneration packages of Executive Directors remain appropriately aligned with the Group's strategic objectives and reflective of the experience and track record of the Executive Directors and comparative benchmarking.

As announced in September 2019, Denise Cockrem, Group CFO, was appointed to the Board. The Committee gave careful consideration to the remuneration package for the Group CFO, in line with the Group's Remuneration Policy. Her remuneration for the period she served as a Director during the year is included in this report.

[1] Alternative performance measure, refer to note 36 to the financial statements for further explanation

2019 also saw a number of changes within the wider leadership of the Group. In relation to these changes, the Committee considered the remuneration package for the Group Chief Actuary on his appointment to the Group Management Board. Also the packages for the Group Director of Broking and Advisory and Group Chief Internal Auditor on their appointments. The Managing Director, UKGI announced his intention to retire in 2020 and the Committee considered the remuneration package for his successor, who joined the Group in February 2020, as well as for the newly appointed President of the Group's Canadian business. The Committee also considered the contractual entitlements applicable to the Group Compliance Director on his retirement and to the Group Brand and Communications Director.

The Committee continued to oversee the development and application of remuneration policy and incentive scheme design across the wider Group, continuing to align reward policies across all Group entities with the Group's strategic objectives and financial targets. The Committee also considered the changes arising from the 2018 UK Corporate Governance Code and Companies (Miscellaneous Reporting) Regulations, further details of which are set out in this report.

Fees for NEDs and the Chairman were reviewed by the Board and the Committee respectively during 2019, in line with its two-year review cycle. The increases (set out on page 159) reflect the demands and responsibilities of the NED roles and will ensure that the Group will continue to be able to attract NEDs with the range of experience and skill levels required.

The Group's gender pay report for 2019 showed a continuing downward trend in the Group's gender pay gap. We are pleased to see that the actions we have taken have resulted in a higher proportion of women filling senior roles and that whilst many of the actions we have put in place are long term in nature this has contributed to our median gender pay gap reducing to 22.4% from 25.0% in 2017. The Group continues to be committed to promoting diversity and gender balance at every level in the business and ensuring that all employees have a fair and equal pay opportunity appropriate to their role.

2019 saw the introduction of disclosures on the pay ratio of the CEO to UK employees for listed companies. 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 disclose the ratio of the Group Chief Executive's pay to that of other UK employees in order to provide greater transparency and further details are set out on page 155.

Conclusion

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

Caroline Taylor
Chair of the Group Remuneration Committee
17 March 2020

Committee member	Member since	Meetings eligible to attend	Meetings attended
David Henderson[1]	September 2016	6	6
Caroline Taylor[2]	November 2014	6	6
The Very Reverend Christine Wilson[3]	February 2018	6	2
Chris Moulder[4]	June 2018	6	5
Angus Winther[5]	April 2019	4	3

[1] David Henderson relinquished the chairmanship of the Committee with effect from 19 March 2019 on his appointment as Group Chairman.

[2] Caroline Taylor was appointed Chairman of the Committee on 21 June 2019.

[3] The Very Reverend Christine Wilson did not attend four meetings due to taking a leave of absence from the Group for personal reasons from April 2019. Dean Wilson had previously been a member of the Committee from April 2013 to September 2016.

[4] Chris Moulder was a member of the Committee until 27 November 2019. Mr Moulder was unable to attend one meeting during the year because of a prior commitment with another Board.

[5] Angus Winther was appointed to the Committee on 3 April 2019. Mr Winther was unable to attend a meeting as it was called at short notice.

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 2019, the Committee held six meetings in total. The Group Remuneration Committee members and their attendance at meetings during the year are set out in the table above. All members are independent NEDs and have the necessary experience and expertise to meet the Committee's responsibilities. There was cross membership of the Group Risk Committee and the Committee to promote alignment of the Group's Risks and Remuneration Policies and consideration of risk management and outcomes in setting reward.

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 acts in the capacity of Actuary to EIO Trustees Ltd in respect of the Group's legacy 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 2019 for professional advice to the Committee were £48,722 (2018: £54,808). The Committee is satisfied that the advice received during 2019 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 Group Risk Committee, Group Chief Executive, Group HR Director, CRO and Group Reward Director. 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 2020. 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 have a fair and equal pay opportunity appropriate to their role.

- The Group will strive to adhere to the highest standards of remuneration-related regulatory compliance and best practice guidelines, while ensuring that the Group's remuneration policies are appropriately tailored to its circumstances, challenges and strategic goals.

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

- Clarity and simplicity – that remuneration arrangements are straightforward and simple for everyone to understand, providing transparency for executives and our shareholder regarding the business and individual performance sought

- Risk – that incentive plans are designed to manage and mitigate the reputational and other risks that can arise from excessive rewards, together with the behavioural risks

- Predictability – that the range of possible values of reward for performance outcomes together with the limits and discretion applicable to the remuneration arrangements are identified and clearly explained

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

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

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

Balancing short- and long-term remuneration

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

Future policy table (Executive Directors)

The following table provides a summary of the key components of the remuneration package for the Executive Directors.

How the element supports the Group's strategic objectives	Operation of the element	Maximum potential value and payment at threshold	Performance measures used, weighting and time period applicable	Change from 2019
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 existing Executive Directors is 15% and for new Executive Directors is 12% of basic salary, in line with the wider employee population. The employer contribution rate to the Canadian EIO plc Defined Contribution Pension plan is 12% of basic salary subject to the Government's annual contribution limits. Amounts in excess are contributed to a SERP.	Not applicable	None
Group annual bonus scheme				
To incentivise the Executive Directors to achieve key financial and strategic goals and targets for the financial year. Deferral provides further alignment with shareholders' interests and promotes retention.	This cash bonus is paid annually, normally three months after the end of the financial year to which it relates. Targets are set annually and award levels are determined by the Committee based on performance against these targets. Any bonus earned in excess of 75% of an individual's maximum bonus opportunity is deferred over a period of three years.	Maximum opportunity of 100% of salary of which 50% is payable for a target level of performance.	The Group annual bonus is subject to a range of challenging metrics linked to key strategic priorities. For 2020, these are: • Ecclesiastical Insurance Group (EIG) PBT (including fair value investment gains/losses) • Group COR • Strategic targets • Customer and conduct targets • Personal performance targets	None

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 2019
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 other Executive Directors. At on-target performance, a target opportunity of 50% of the award applies. Threshold business performance results in vesting of no more than 20% of the award. The Group LTIP plan granted in respect of 2018-2020 and 2019-2021 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 2020 awards relating to the performance period 2020-2022, 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.	None

Notes to policy table

Performance measures and targets

The Committee selected the performance conditions used for the 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.

Remuneration Committee discretion, malus and clawback provisions

The Committee has discretion to reduce any annual bonus and LTIP prior to award in certain circumstances, including (but not limited to): (i) issues regarding the Group's underlying financial strength and position; (ii) 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.

Changes to the Policy from that operating in 2019

No changes were made to the Policy from that operating in 2019.

Remuneration arrangements elsewhere in the Group

The Group's approach to Executive Director and wider employee remuneration is based on the common set of principles set out in the Group's Remuneration Policy on page 145. 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

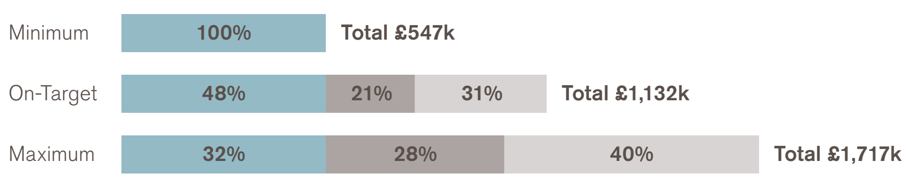
The remuneration scenario charts below illustrate what each Executive Director could earn in respect of the policy for 2020, under different performance scenarios:

- 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.

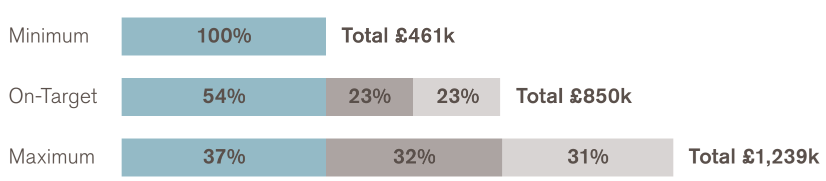
Notes to the charts:

- Fixed pay is base salary for 2020 plus the value of pension and benefits.
- Base salary is the aggregate of the salary applicable at 1 January 2020 for January to March 2020 and the salary applicable at 1 April 2020 for April to December 2020.
- 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 2019, (pro-rated to the full year value in the case of the Group CFO), which can be found on page 151.
- 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.

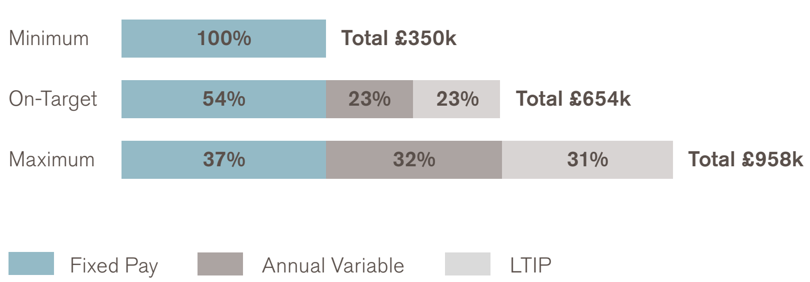
Mark Hews: Effect of the application of this policy in financial year 2020



S. Jacinta Whyte: Effect of the application of this policy in financial year 2020



D. Cockrem: Effect of the application of this policy in financial year 2020



Approach to recruitment remuneration

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

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

Where it is thought necessary to compensate for an individual's awards resulting from previous employment, the Committee may, as far as practicable, seek to match the expected value of such awards through the use of the Group's existing incentive arrangements. Where this is not possible, it may be necessary to offer some form of 'buy-out' award, the size of which will, in the normal course of events, reflect the commercial value of the award foregone (and the vesting timetable of the awards foregone) and will also (where possible) be subject to some form of clawback if the individual leaves Ecclesiastical within a set timeframe.

Any new Executive Director's package would include the same elements and generally be subject to the same constraints as existing Executive Directors.

Element of Remuneration	Maximum percentage of salary
Salary	-
Annual bonus	100%
LTIP	150% – Group Chief Executive 100% – Deputy Group Chief Executive and Group CFO
Pension contribution/allowance	12% UK Defined Contribution Scheme 12% Canadian EIO plc Defined Contribution Pension Plan subject to the Government's annual contribution limits. Amounts in excess are contributed to a SERP.

Service contracts and policy on payment for loss of office

Standard provision	Policy	Details
Notice periods in Executive Directors' service contracts	Twelve months by the Group or Executive Director for the Group Chief Executive and six months by the Group or Executive Director for the Deputy Group Chief Executive and Group CFO.	Executive Directors may be required to work through their notice period, or may be paid in lieu of notice if they are not required to work the full notice period.
Payment in lieu of notice	The Group may decide if it wishes to make a payment in lieu of notice of an amount prescribed under the contract, comprising of salary (and in the case of the Group Chief Executive, benefits) for the balance of the notice period, excluding bonus and accrued holiday entitlement.	Payable as a lump sum within 14 days of termination date in the case of the Group Chief Executive. Payable in monthly instalments over the balance of the notice period in the case of the Deputy Group Chief Executive and Group CFO.
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 £512k 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 £151k.

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

Standard provision	Policy	Details
Mitigation	Except in the case of the Group Chief Executive, Executive Directors' service contracts expressly provide for mitigation on termination by allowing for payment in instalments over the balance of the notice period.	The Committee will take account of the circumstances of the termination and the director's performance during the period of qualifying service to determine whether the exercise of any discretion is appropriate.
Treatment of annual bonus on termination or change of control under plan rules	No payment is to be made unless the executive is employed on the date of bonus payment except for 'good leavers' as defined in the plan rules (e.g. death, ill health, 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 142.	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's strategic objectives	Operation of the element	Maximum potential value and payment at threshold	Performance measures used, weighting and time period applicable
To attract NEDs who have a range of experience and skills to oversee the implementation of the Group's Strategy	NEDs' fees, including the Committee Chairman's fees, are approved by the Board and at a general meeting, following recommendation by the Chairman and Executive Directors. NEDs take no part in the discussion relating to their own fees. The Chairman's and the SID's fees are considered and approved by the Board in the absence of the Chairman and SID. 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.

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Consideration of employment conditions elsewhere in the Group
The remuneration of employees across the Group is a key consideration when setting the policy and determining outcomes for Executive Directors and the Committee is mindful of the importance of aligning executive and wider employee pay and conditions. As part of its work, the Committee has oversight of pay, incentive arrangements and conditions applicable to employees more widely and oversees the incentive plans and material changes to employee pay and conditions across the Group's businesses. 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. When reviewing and setting the performance measures, targets and deferral arrangements for Executive Directors' annual bonuses and LTIPs, the Committee considers the extent to which these should be cascaded to other employees. The Committee additionally has oversight of the remuneration arrangements for designated senior managers and material risk-takers below the Executive Directors.

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

Consideration of shareholder views
The Committee, through the Board, consults with the shareholder on any changes to this policy in order to understand expectations with regard to Executive Directors' remuneration and any changes in the shareholder's views. The Committee consults with the shareholder in respect of Non-Executive Director and the Chairman's fees.

Annual Report on Remuneration*

This section of the Directors' Remuneration Report sets out how the above Remuneration Policy was implemented in 2019 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 2019 financial year for each Executive Director, together with comparative figures for 2018.

* 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	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Mark Hews	461	449	14	14	444	380	510	339	60	58	1,489	1,240
S. Jacinta Whyte[5]	382	373	22	22	369	306	298	296	57[6]	58[6]	1,127	1,056
Ian Campbell[7]	0	200	0	18	0	0	0	0	0	26	0	244
Denise Cockrem[8]	95	0	4	0	86	0	0	0	10	0	196	0
Total	**938**	**1,022**	**41**	**54**	**899**	**686**	**808**	**635**	**126**	**142**	**2,812**	**2,540**

[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 2019 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 2019, the value of Executive Directors' annual bonuses that were deferred is: £97k (Group Chief Executive), £80k (Deputy Group Chief Executive) and £46k (Group CFO).

[3] LTIP represents the amount payable in respect of the three-year LTIP performance period 2017-2019 for 2019 and 2016-2018 for 2018. 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 and Group CFO received a cash allowance in lieu of pension, in line with company policy that a cash allowance of 15% (Group Chief Executive) or 12% (Group CFO) 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 2019 exchange rate of 1.6981 Canadian dollars to 1 GBP has been used in respect of both 2019 and 2018.

[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.

[8] Denise Cockrem was appointed to the Board on 6 September 2019. Her remuneration for the period she served as a Director during the year is included in the above table.

Mark Hews is a NED for MAPFRE RE and was appointed to their Board in December 2013. The fee of £33k (2018: £30k) that Mark Hews earns in respect of this role is paid directly to the Group by MAPFRE RE and is not received by Mark Hews.

Denise Cockrem is a NED for Skipton Building Society and was appointed to their Board in September 2015. The fee that Denise Cockrem earns in respect of this role is paid directly to the Group by Skipton Building Society and is not received by Denise Cockrem. The fee received in respect of the period since her appointment to the Ecclesiastical Board on 6 September 2019 was £16.2k.

Additional requirements in respect of the single total figure table

Annual bonus outcomes for 2019 (audited)
The annual bonuses payable to Executive Directors in respect of 2019 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 2019, 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 2019 were:

Performance condition	Threshold (0.5x)	Target (1.0x)	Maximum (1.5x)	Weighting
Group COR	98.6%	93.6%	89.5%	40%
Group EIG PBT	£10.9m	£33.5m	£71.0m	30%
Strategic Targets	50%	75%	100%	15%
Customer and Conduct	85%	90%	100%	15%

The results relating to the Group annual bonus for the financial year 2019, and the resultant aggregate Group performance multiplier, are shown below.

Performance condition	Result	Multiplier	Weighting	Weighted multiplier
Group COR	91.1%	1.3	40%	0.52
Group EIG PBT1	£70.8m	1.5	30%	0.45
Strategic Targets	90.4%	1.3	15%	0.20
Customer and Conduct	97.0%	1.4	15%	0.20
Aggregate Group performance multiplier				1.37

[1] Audited to EIO Group level

The Strategic Targets performance condition measures delivery of the Group's change programme. The agreed priorities for 2019 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 44 to 48, the Group has continued to deliver across a wide front through its strategic programme of change, investing in its businesses and 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 90.4% being achieved against the strategic targets measure for 2019.

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 2019 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 142.

LTIP outcomes in 2019 (audited)
The LTIP amount included in the single total figure of remuneration is the cash award resulting from the Group LTIP grant in 2017 for the period 2017-2019. Vesting was dependent on performance over the three financial years ending on 31 December 2019 and continued service until March 2020.

The 2017-2019 Group LTIP is subject to the five performance conditions: Group COR (20%); Group EIG PBT (excluding fair value investment gains and losses) (20%); Group EIG PBT (including fair value investment gains and losses) (20%); delivery of Group strategic initiatives in line with the Group's strategic plan (20%); and Customer and Conduct performance (20%). Results in respect of each performance condition are assessed against the required performance levels set at threshold, target and maximum as shown below.

Performance condition	Threshold – 20% vesting	Target – 50% vesting	Maximum – 100% vesting	Actual	Vesting (% of maximum for performance condition)
Group COR	98.7%	93.5%	91.5%	88.2%	100%
Group PBT (excluding fair value investment gains/losses)[1]	£74.4m	£115.9m	£139.2m	£125.2m	70%
Group PBT (including fair value investment gains/losses)[1]	£64.4m	£110.3m	£159.2m	£171.7m	100%
Strategic Targets	50%	75%	100%	91.6%	83%
Customer and Conduct	80%	90%	100%	95.3%	77%
Total					86.0%

[1] Audited to EIO Group level

The Group LTIP outcome that vests in respect of each executive director in respect of 2017-2019 is shown below.

	LTIP grant	Total LTIP vesting	
	% of salary	£000	% of maximum
Mark Hews	150%	510	86.0%
S. Jacinta Whyte[1]	100%	298	86.0%
Ian Campbell[2]	100%	0	0%

[1] An average 2019 exchange rate of 1.6981 Canadian dollars to 1 GBP has been used in respect of 2019.
[2] Ian Campbell resigned from the Board on 31 August 2018

Scheme interests awarded during 2019 (audited)

During 2019, awards comprising of a cash sum were granted under the 2019-2021 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 2022, to the extent that the applicable performance targets are met. The vesting date for these awards is the date on which the Group's 2021 results are announced, anticipated to be during March 2022.

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]
2019-2021 Group LTIP						
Mark Hews	13 Aug 2019	150%	678	20%	31 December 2021	• 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 Aug 2019	100%	375	20%	31 December 2021	
Denise Cockrem[2]	13 Aug 2019	100%	230	20%	31 December 2021	

[1] An average 2019 exchange rate of 1.6981 Canadian dollars to 1 GBP has been used.
[2] Denise Cockrem was appointed to the Board on 6 September 2019.
[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.

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

Chief Executive pay ratio

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

The table below sets out the ratio between the Group Chief Executive's salary and total remuneration and that of the 25th percentile (P25), median (P50) and 75th percentile (P75) UK-based employees of Ecclesiastical Insurance Office plc (excluding SEIB), which constitute the large majority of the UK workforce. Total remuneration reflects all remuneration received by the individual in the relevant year, including base salary, benefits, pension, annual bonus and, where relevant, the long-term incentive that vests, but excludes taxable company car benefits in 2019 for administrative reasons. Of the three available calculation methods, the Group has chosen to apply Option A as described under the regulations for listed companies, as the most accurate way of identifying employees at the 25th percentile, median and 75th percentile. Calculations have been carried out on a full-time equivalent basis as at 31 December 2019.

Year	Methodology used	Pay Element	P25 (lower quartile)	P50 (median)	P75 (upper quartile)
2019	Option A	Pay Ratio	40:1	29:1	21:1
		Total Remuneration	£37,675	£51,015	£71,632
		Salary	£29,389	£39,596	£50,814

The Committee is satisfied that the individuals identified appropriately reflect the employee remuneration profile at the lower, median and upper quartile and that the overall picture presented by the ratios is consistent with the Group's wider policies pay, reward and progression policies for the Group's UK-based employees. The CEO is paid 29 times the median employee. The Committee has reviewed this and is confident that this is consistent with the remuneration policy and market positioning for the firm's employees. It will keep the position under review on an ongoing basis.

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 2018 to 2019) for the Group Chief Executive compared with UK-based employees[1]. The Committee has selected this comparator group as being the most appropriate because the composition and structure of remuneration for this group most closely reflects that of the Group Chief Executive.

	Group Chief Executive % change	Average UK-based employees[1] % change
Salary	2.6%	4.2%
Taxable benefits[2]	1.5%	1.5%
Annual bonus	17.0%	31.9%

[1] UK-based employees of Ecclesiastical Insurance Office plc; excluding employees in SEIB; matched sample basis.
[2] Based on contractual P11D taxable benefits for the tax year ending 5 April in the relevant year.

Relative importance of spend on pay

The table below sets out, for 2019 and 2018, 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.

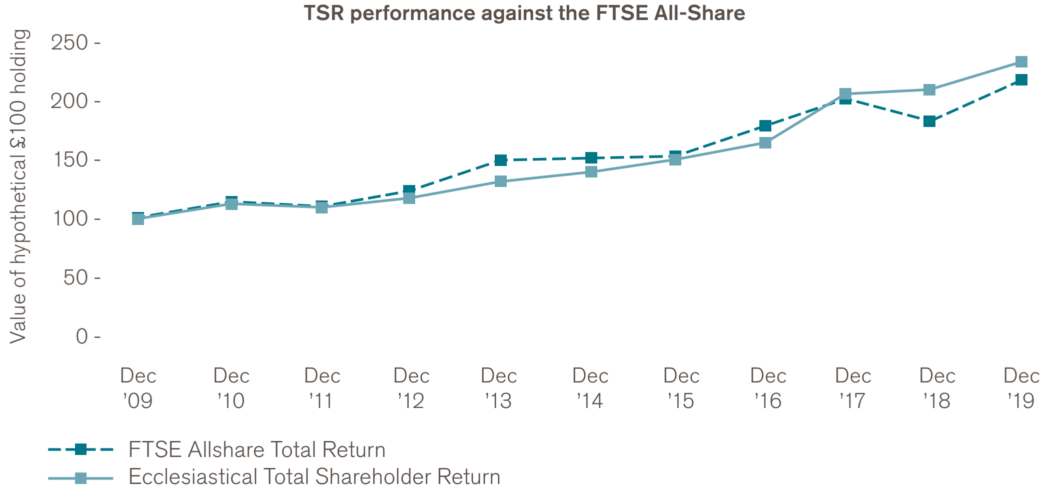
	2019	2018	% change
	£000	£000	
Remuneration paid to all Group employees	88,137	84,335	5%[1]
Gross charitable grants to the ultimate parent company, Allchurches Trust Limited	30,000	17,000	176%
Non-Cumulative Irredeemable Preference share dividend	9,181	9,181	Nil
PBT	73,264	15,371	477%

[1] The increase in staff remuneration costs in 2019 reflects the higher number of employees and salary inflation. In 2018 there was a one-off company contribution to pension costs following closure of the defined benefit pension plan to future accrual. See note 13 to the financial statements on page 214.

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.

Ecclesiastical Insurance Office plc 10 year to 2019 TSR performance against the FTSE All-Share



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 2019.

		Financial year ending 31 December									
Financial year	Group Chief Executive[1]	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total remuneration (single figure) £000	Mark Hews	N/A	N/A	N/A	569	907	1,089	1,370	1,212	1,240	1,489
	Michael Tripp	430	416	390	330	162	N/A	N/A	N/A	N/A	N/A
Annual bonus received (% of maximum)	Mark Hews	N/A	N/A	N/A	45%	78%	88%	97%	99%	84%	96%
	Michael Tripp[2]	23%	0%	0%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Long-term incentive vesting (% of maximum)	Mark Hews[3]	N/A	N/A	N/A	4%	60%	70%	88%	75%	88%	86%
	Michael Tripp[4]	27%	34%	0%	4%	47%	N/A	N/A	N/A	N/A	N/A

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

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

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

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

Statement of directors' shareholdings and share interests

Directors' shareholdings and share interests are set out in the Directors' Report on page 122. Due to the Group's ownership structure, in particular that its ultimate parent company is a charity, it is not possible to deliver variable remuneration in the form of shares. Directors' shareholdings are not subject to post-employment shareholding requirements.

Directors' service agreements

Mark Hews has a service contract which provides for a notice period of 12 months by the Company. S. Jacinta Whyte and Denise Cockrem have service contracts which provides for a notice period of 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 2019.

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

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

Non-Executive Directors	Fees (£000) 2019	Fees (£000) 2018	Benefits (£000) 2019	Benefits (£000) 2018
David Henderson[2]	118	68	1	1
The Very Revd Christine Wilson[3]	65	-	5	0
Andrew McIntyre[4]	65	65	0	0
Chris Moulder[5]	65	60	2	2
Caroline Taylor[6]	59	53	5	6
Francois-Xavier Boisseau[7]	41	-	0	-
Angus Winther[7]	41	-	0	-
Tim Carroll[8]	63	63	1	2
John Hylands[9]	29	133	9	21
Anthony Latham[10]	-	29	-	3
Denise Wilson[11]	-	41	-	4
Total	**545**	**510**	**23**	**39**

[1] Benefits include travel and accommodation benefits, valued at their grossed up tax and NI value, in accordance with Group's travel and expenses policy.

[2] David Henderson was appointed as Chairman on 19 March 2019. Prior to this Mr Henderson was Chairman of the Group Remuneration Committee and a NED of EdenTree Investment Management Limited (EIM). David Henderson waived his fee as Chairman of the Group Remuneration Committee and received an additional fee of £15k in 2018 and £3k in 2019 for his services as a NED of EIM.

[3] The Very Revd Christine Wilson was appointed as Senior Independent Director on 1 November 2017. Christine Wilson chose to donate her fee to charity in 2019. 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.

[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] Caroline Taylor was appointed as Chairman of the Group Remuneration Committee on 21 June 2019.

[7] Francois-Xavier Boisseau and Angus Winther were appointed as a NEDs on 19 March 2019.

[8] Tim Carroll retired from the Board on 31 December 2019.

[9] John Hylands retired as Chairman of the Group and from the Board on 19 March 2019.

[10] Anthony Latham retired from the Board on 14 June 2018.

[11] Denise Wilson resigned from the Board on 21 August 2018.

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

Total aggregate emoluments of directors

The total aggregate remuneration of the directors in respect of qualifying services during 2019 was £2,446k (2018: £2,311k). After inclusion of amounts receivable under long-term incentive schemes and pension benefits, the total aggregate emoluments of the directors was £3,379k (2018: £3,088k).

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 2020

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 2020 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 2020.

Name	Salary (£000)	Salary (£000)	Percentage increase
	1 April 2020	1 April 2019 [2]	
Mark Hews	475	463	2.5%
S. Jacinta Whyte[1]	394	384	2.5%
Denise Cockrem[2]	308	300	2.5%

[1] An average 2019 exchange rate of 1.6981 Canadian dollars to 1 GBP has been used.

[2] Denise Cockrem was appointed to the Board on 6 September 2019. Her salary was increased to £300k with effect from 1 July 2019 upon her taking up her wider responsibilities as Group CFO and Executive Director.

Annual bonus for 2020

The annual bonus performance conditions and targets have been set in accordance with the Directors' Remuneration Policy above, on the same basis as 2019.

As in 2019, the annual bonuses payable to Executive Directors in respect of 2020 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 2020, 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 2020 is unchanged at 100% of salary. Annual bonuses in respect of 2020 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 2020-2022

The 2020-2022 LTIP performance conditions and targets have been set in accordance with the Directors' Remuneration Policy above. The 2020-2022 Group LTIP will be subject to the following performance conditions (which are unchanged from 2019): 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 2020-2022 Group LTIP will be up to 150% of salary in the case of the Group Chief Executive and up to 100% of salary in the case of the Deputy Group Chief Executive and Group CFO.

Fees (Non-Executive Directors)

The following fee structure will apply from 1 January 2020.

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

[1] The fee for chairing the Group Nominations Committee is included within the all-inclusive fee for the Senior Independent Director for 2019

By order of the Board

Caroline Taylor
Chair of the Group Remuneration Committee
17 March 2020

Section Four

Financial Statements

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 2019 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 statement of changes in equity;
- the consolidated and parent statement of financial position;
- the consolidated and parent statement of cash flows; and
- the related notes 1 to 37 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; and • Life insurance reserves. Within this report, key audit matters are identified as follows: ! Newly identified ⇧ Increased level of risk ⇔ Similar level of risk ⇩ Decreased level of risk	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. It was capped at 95% of the Ecclesiastical Insurance Group materiality.	As in the prior year, our group audit included the audit of subsidiary entities and branches in the United Kingdom and in Australia, as well as the parent company's branches in Canada, Northern Ireland and the Republic of Ireland.	During 2019, we reassessed the key audit matter identified in the prior year in relation to the valuation of the defined benefit scheme liability for the employees of the parent company. 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.

Section One About Us
Section Two Strategic Report
Section Three Governance
Section Four Financial Statements
Section Five Other Information

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 12 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 2019, we reassessed the key audit matter identified in the prior year in relation to the valuation of the defined benefit scheme liability for the employees of EIO. We concluded that since the scheme was closed to future accrual in July 2019, the calculation of the liability is less complex than in 2018. 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 valuation of the defined benefit scheme liability 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 £482m (2018: £457m), 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 judgement 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 130. 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. Discounting and future inflation assumptions, 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 reviewed management's general insurance reserving papers for the 2019 year-end as presented to the Group Audit Committee. Key assumptions used within the calculation of the UK PSA and asbestos IBNR reserves such as claims frequency, severity, inflation and discounting, as well as models and 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 of such margins. We obtained an understanding of relevant 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 2019 general insurance IBNR reserving process are reasonable and consistent with the prior year.

Life insurance reserves ⇔

Key audit matter description

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, in particular:

- Valuation rate of interest;
- 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 (2019: £79.2m, 2018: £81.9m) 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 130.

How the scope of our audit responded to the key audit matter

We reviewed management's life reserving papers as presented to the Group Audit Committee.

We challenged the key judgements within the calculation of the life insurance reserves by working with our life insurance actuarial specialists, 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 appropriateness and consistency with input from our specialists, and benchmarked using our wider industry knowledge as well as taking into account any factors specific to the group's funeral plan book.

We also obtained an understanding of relevant controls governing the actuarial models, assumption setting process and data flows.

In 2019, management used OAC plc for the actuarial modelling of the reserves. We assessed the competence, capability and objectivity of OAC plc.

We performed direct testing of the completeness and accuracy of key underlying data used in the life reserving process, in particular policyholder data, 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.

Key observations

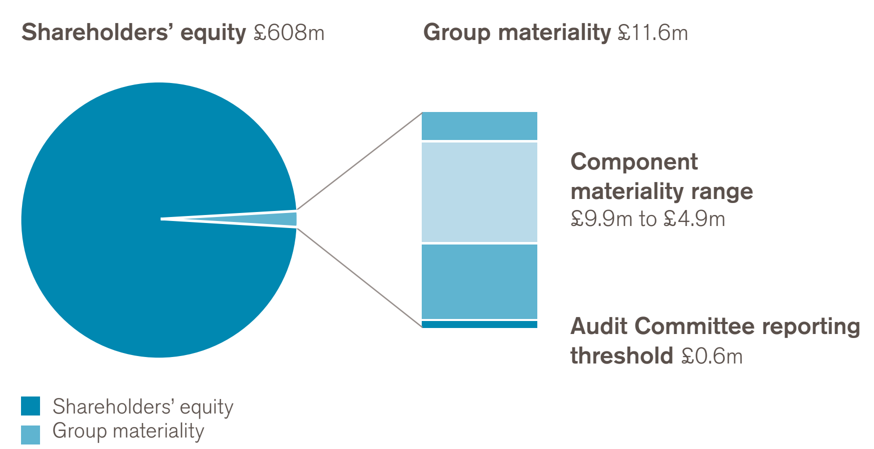
Overall, we are satisfied that the assumptions used and the judgements applied in the 2019 valuation are reasonable and have been set consistently with the Group's reserving methodology.

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 (2018: £11.6m)	£9.9m (2018: £9.8m)
Basis for determining materiality	2% of group total shareholders' equity (2018: 2% total shareholders' equity), which is capped at 95% of Ecclesiastical Insurance Group materiality.	2% of the parent company's shareholders' equity (2018: 2% shareholders' equity), which is capped at 85% of group materiality.
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 regulated status of the parent as an insurer as well as the unusual ownership structure of the group, with the ultimate Parent Company being a UK registered charity.	



Performance materiality
We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of group materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the following factors:

a. the quality of the control environment and the fact that we were able to rely on key controls for some business processes;

b. the consistency of operations even with the turnover of finance personnel in the last two years; and

c. the low level of corrected and uncorrected misstatements identified in previous audits.

Error reporting threshold
We agreed with the Group Audit Committee that we would report to the Group Audit Committee all audit differences in excess of £580k (2018: £579k), 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

Identification and scoping of components
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 component to the group.

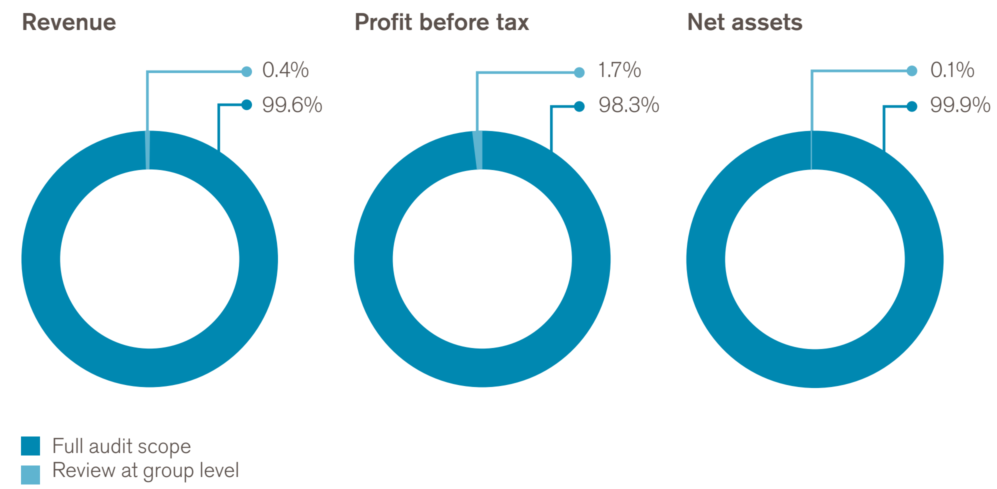
All financially significant components of the group were subject to full scope audit procedures, which were executed to the lower of group component materiality ranging from £4.9m to £9.9m, or their respective statutory materiality.

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 that were not subject to full scope audit or subject to audit of specified account balances.

Working with other auditors
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 visit to the overseas component in Australia took place in 2017 for the 2016 year-end audit whilst the Canadian component was last visited in 2017 for the 2017 year-end audit. The Group Audit Engagement Partner is also the Audit Partner for the Group's UK-based components and subsidiaries.

In 2019 we reassessed the three year rotational plan and the risks presented within each component and determined that a visit to Australia in the current year was not necessary.

During the 2019 audit, we included the component audit teams in our team briefings, discussed their risk assessments, remotely reviewed key audit work papers and documentation of findings from their work, and senior members of the group engagement team attended local audit committees via telephone conference where concluded to be necessary. Regular conference calls are held with overseas component audit teams, including the Component Audit Partners and the Group Audit Partner.



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 and non-compliance with laws and regulations 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, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the group's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the board;
- results of our enquiries of management, Group Internal Audit, and the Group Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their 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 of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including significant component audit teams and involving relevant internal subject matter experts and specialists, including tax, pensions, IT, and actuarial specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the valuation of general and life insurance reserves. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act and relevant tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included laws and regulations issued by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority ('PRA'), including the Group's regulatory solvency capital requirements.

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 related to the potential risk of fraud. The key audit matters 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 provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- 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 internal audit reports and reviewing correspondence with HMRC, the FCA, and the PRA;
- engaging actuarial specialists to assess the assumptions, methodology and judgement used in calculating the general and life insurance reserves and the pension obligation; 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 the light of the knowledge and understanding of the group and 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 this matter.

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 22 years, covering the years ended 31 December 1998 to 31 December 2019.

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
17 March 2020

'We use a materiality approach to drive our strategy, responding to new responsible business challenges which impact our customers, partners and communities.'

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Consolidated statement of profit or loss
for the year ended 31 December 2019

	Notes	2019 £000	2018 £000
Revenue			
Gross written premiums	5, 6	**393,952**	356,971
Outward reinsurance premiums	6	**(152,886)**	(137,640)
Net change in provision for unearned premiums	6	**(15,080)**	(5,241)
Net earned premiums		**225,986**	214,090
Fee and commission income	7	**71,240**	62,996
Other operating income		**544**	1,039
Net investment return	8	**74,438**	3,994
Total revenue		**372,208**	282,119
Expenses			
Claims and change in insurance liabilities	9	**(157,808)**	(111,873)
Reinsurance recoveries	9	**52,800**	26,188
Fees, commissions and other acquisition costs	10	**(72,740)**	(66,346)
Other operating and administrative expenses		**(120,577)**	(114,388)
Total operating expenses		**(298,325)**	(266,419)
Operating profit		**73,883**	15,700
Finance costs		**(620)**	(329)
Profit before tax	5	**73,263**	15,371
Tax expense	14	**(11,450)**	(958)
Profit for the year (attributable to equity holders of the Parent)	11	**61,813**	14,413

Consolidated and parent statement of comprehensive income
for the year ended 31 December 2019

	Notes	2019 Group £000	2019 Parent £000	2018 Group £000	2018 Parent £000
Profit for the year		**61,813**	**70,151**	14,413	15,662
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Fair value gains on property		**-**	**-**	105	105
Actuarial (losses)/gains on retirement benefit plans	19	**(7,049)**	**(7,049)**	4,288	4,288
Attributable tax		**1,198**	**1,198**	(747)	(747)
		(5,851)	**(5,851)**	3,646	3,646
Items that may be reclassified subsequently to profit or loss:					
(Losses)/gains on currency translation differences	27	**(1,368)**	**525**	(3,082)	(833)
Gains/(losses) on net investment hedges	27	**640**	**(649)**	1,692	453
Attributable tax	27	**(19)**	**110**	(187)	(77)
		(747)	**(14)**	(1,577)	(457)
Net other comprehensive (expense)/income		**(6,598)**	**(5,865)**	2,069	3,189
Total comprehensive income attributable to equity holders of the Parent		**55,215**	**64,286**	16,482	18,851

Consolidated and parent statement of changes in equity
for the year ended 31 December 2019

Group	Notes	Share capital £000	Share premium £000	Revaluation reserve £000	Translation and hedging reserve £000	Retained earnings £000	Total £000
At 1 January 2019		**120,477**	**4,632**	**565**	**19,071**	**441,259**	**586,004**
Profit for the year		-	-	-	-	*61,813*	*61,813*
Other net expense		-	-	-	*(747)*	*(5,851)*	*(6,598)*
Total comprehensive (expense)/income		-	-	-	(747)	55,962	55,215
Dividends	15	-	-	-	-	(9,181)	(9,181)
Gross charitable grant	15	-	-	-	-	(30,000)	(30,000)
Tax relief on charitable grant	15	-	-	-	-	5,497	5,497
At 31 December 2019		**120,477**	**4,632**	**565**	**18,324**	**463,537**	**607,535**
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/(expense)		-	-	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
Parent							
At 1 January 2019		**120,477**	**4,632**	**565**	**7,578**	**361,595**	**494,847**
Profit for the year		-	-	-	-	*70,151*	*70,151*
Other net income/(expense)		-	-	-	*(14)*	*(5,851)*	*(5,865)*
Total comprehensive income		-	-	-	(14)	64,300	64,286
Dividends		-	-	-	-	(9,181)	(9,181)
Gross charitable grant		-	-	-	-	(30,000)	(30,000)
Tax relief on charitable grant		-	-	-	-	4,920	4,920
Group tax relief in excess of standard rate		-	-	-	-	(115)	(115)
At 31 December 2019		**120,477**	**4,632**	**565**	**7,564**	**391,519**	**524,757**
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/(expense)		-	-	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

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 2019

	Notes	2019 Group £000	2019 Parent £000	2018 Group £000	2018 Parent £000
Assets					
Goodwill and other intangible assets	17	**38,651**	**11,914**	30,064	4,849
Deferred acquisition costs	18	**38,199**	**31,133**	33,907	27,812
Deferred tax assets	30	**2,203**	**-**	1,749	-
Pension assets	19	**8,505**	**8,505**	16,131	16,131
Property, plant and equipment	20	**20,322**	**16,700**	8,391	7,372
Investment property	21	**148,146**	**148,146**	152,182	152,182
Financial investments	22	**857,913**	**697,153**	798,974	636,688
Reinsurers' share of contract liabilities	28	**159,556**	**106,701**	140,346	100,238
Current tax recoverable		**4,211**	**2,732**	59	10
Other assets	24	**178,358**	**133,793**	153,630	116,328
Cash and cash equivalents	25	**74,775**	**42,248**	109,417	72,775
Total assets		**1,530,839**	**1,199,025**	1,444,850	1,134,385
Equity					
Share capital	26	**120,477**	**120,477**	120,477	120,477
Share premium account		**4,632**	**4,632**	4,632	4,632
Retained earnings and other reserves		**482,426**	**399,648**	460,895	369,738
Total shareholders' equity		**607,535**	**524,757**	586,004	494,847
Liabilities					
Insurance contract liabilities	28	**763,977**	**556,272**	720,049	531,439
Lease obligations	32	**12,923**	**10,328**	1,379	1,379
Provisions for other liabilities	29	**4,867**	**4,695**	5,216	5,059
Retirement benefit obligations	19	**5,998**	**5,998**	5,813	5,813
Deferred tax liabilities	30	**35,649**	**34,428**	31,665	31,070
Current tax liabilities		**123**	**-**	2,905	2,243
Deferred income	31	**22,815**	**16,981**	19,900	15,280
Other liabilities	31	**76,952**	**45,566**	71,919	47,255
Total liabilities		**923,304**	**674,268**	858,846	639,538
Total shareholders' equity and liabilities		**1,530,839**	**1,199,025**	1,444,850	1,134,385

The financial statements of Ecclesiastical Insurance Office plc, registered number 24869, on pages 176 to 245 were approved and authorised for issue by the Board of Directors on 17 March 2020 and signed on its behalf by:

David Henderson
Chairman

Mark Hews
Group Chief Executive

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Consolidated and parent statement of cash flows for the year ended 31 December 2019

	Notes	2019 Group £000	2019 Parent £000	2018 Group £000	2018 Parent £000
Profit before tax		73,263	80,552	15,371	15,762
Adjustments for:					
Depreciation of property, plant and equipment		5,081	4,222	2,437	2,212
Revaluation of property, plant and equipment		-	-	(85)	(60)
Loss/(profit) on disposal of property, plant and equipment		171	84	(3)	-
Amortisation and impairment of intangible assets		1,016	589	949	699
Impairment of shares in subsidiary undertakings		-	610	-	-
Net fair value (gains)/losses on financial instruments and investment property		(52,091)	(45,136)	35,506	29,557
Dividend and interest income		(26,218)	(33,243)	(27,107)	(24,307)
Finance costs		620	504	329	329
Adjustment for pension funding		815	815	2,931	2,931
Changes in operating assets and liabilities:					
Net increase/(decrease) in insurance contract liabilities		49,537	25,501	(42,161)	(29,729)
Net (increase)/decrease in reinsurers' share of contract liabilities		(21,265)	(6,543)	16,431	9,514
Net increase in deferred acquisition costs		(4,553)	(3,307)	(3,078)	(2,364)
Net increase in other assets		(25,272)	(16,724)	(5,388)	(1,763)
Net increase in operating liabilities		11,153	2,371	5,838	6,950
Net increase/(decrease) in other liabilities		784	825	(286)	(309)
Cash generated by operations		13,041	11,120	1,684	9,422
Purchases of financial instruments and investment property		(156,760)	(122,792)	(125,739)	(96,461)
Sale of financial instruments and investment property		148,308	107,414	149,562	118,173
Dividends received		9,605	22,512	9,790	13,146
Interest received		16,293	10,351	17,347	11,153
Tax paid		(8,296)	(5,787)	(4,998)	(3,140)
Net cash from operating activities		22,191	22,818	47,646	52,293
Cash flows from investing activities					
Purchases of property, plant and equipment		(4,394)	(4,117)	(1,822)	(1,538)
Proceeds from the sale of property, plant and equipment		-	-	55	43
Purchases of intangible assets		(9,613)	(7,615)	(2,371)	(2,060)
Acquisition of business, net of cash acquired	16	(40)	-	(225)	-
Acquisition of shares issued by subsidiary	22	-	-	-	(274)
Net cash used by investing activities		(14,047)	(11,732)	(4,363)	(3,829)
Cash flows from financing activities					
Interest paid		(620)	(504)	(329)	(329)
Payment of lease liabilities		(2,787)	(2,185)	(346)	(346)
Payment of group tax relief in excess of standard rate		-	-	-	(174)
Dividends paid to Company's shareholders		(9,181)	(9,181)	(9,181)	(9,181)
Charitable grant paid to ultimate parent undertaking		(30,000)	(30,000)	(17,000)	(17,000)
Net cash used by financing activities		(42,588)	(41,870)	(26,856)	(27,030)
Net (decrease)/increase in cash and cash equivalents		(34,444)	(30,784)	16,427	21,434
Cash and cash equivalents at beginning of year		109,417	72,775	93,767	51,399
Exchange (losses)/gains on cash and cash equivalents		(198)	257	(777)	(58)
Cash and cash equivalents at end of year	25	74,775	42,248	109,417	72,775

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 2019 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.

As stated in the Director's Report, the directors consider that it is appropriate to continue to adopt the going concern basis in preparing the accounts.

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

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

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

New and revised standards

The Group has adopted the following standards and amendments with effect from 1 January 2019:

- IFRS 16, *Leases*

The Group and Parent have adopted IFRS 16 using the modified retrospective approach, as permitted by the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. Comparative figures for the 2018 reporting period have not been restated, as permitted under the specific transitional provisions in the standard. There was no impact on the Group or Parent's opening equity.

On adoption of IFRS 16, the Group and Parent recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17, *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The Group's weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.0%. The Parent's weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.9%. The following table reconciles the operating lease commitments at 31 December 2018 to the lease liability recognised on 1 January 2019 following the adoption of IFRS 16.

	2019 £000
Operating lease commitments disclosed as at 31 December 2018	19,605
Contract elements reassessed as service agreements	(1,579)
Payments due in periods covered by extension options that are included in the lease term	957
Leases committed but not yet commenced at 31 December 2018	(4,969)
Short-term leases, sales taxes and other	(1,451)
Discounted using the lessee's incremental borrowing rate at the date of initial application	(1,480)
Finance liabilities recognised as at 31 December 2018	1,379
Lease liability recognised as at 1 January 2019	12,462

Notes to the financial statements
1 Accounting policies (continued)

Right-of-use assets have been measured at 1 January 2019 at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

For leases previously classified as finance leases the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of right-of-use assets at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4, *Determining whether an Arrangement contains a Lease*.

The adoption of IFRS 16 affected the following items on the balance sheet:

Group	At 31 December 2018	Adjustment	At 1 January 2019
	£000	£000	£000
Property, plant and equipment	8,391	10,353	18,744
Other assets	153,630	(447)	153,183
Lease obligations	(1,379)	(11,083)	(12,462)
Provisions for other liabilities	(5,216)	(503)	(5,719)
Other liabilities	(71,919)	1,680	(70,239)

Parent	At 31 December 2018	Adjustment	At 1 January 2019
	£000	£000	£000
Property, plant and equipment	7,372	7,132	14,504
Other assets	116,328	(427)	115,901
Lease obligations	(1,379)	(7,940)	(9,319)
Provisions for other liabilities	(5,059)	(445)	(5,504)
Other liabilities	(47,255)	1,680	(45,575)

The other standards adopted in the year do not significantly impact the Group.

IFRS 9, *Financial Instruments*, is effective for periods beginning on or after 1 January 2018. However the Group has taken the option available to insurers to defer the application of IFRS 9 as permitted by IFRS 4, *Insurance Contracts*. The Group qualifies for the temporary exemption, which is available until annual periods beginning on or after 1 January 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*.

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.

Notes to the financial statements
1 Accounting policies (continued)

The following standards were in issue but were either not yet effective or have been deferred and therefore have not been applied in these financial statements.

Standard	Key requirements	Expected impact on financial statements	Effective date
IFRS 9, *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 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.

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.

Basis of consolidation

Subsidiaries

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

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

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

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

Notes to the financial statements
1 Accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements
1 Accounting policies (continued)

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

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

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

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

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

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

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

Further details on insurance contract liabilities are included in note 28.

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 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
Right-of-use assets	Over the term of the lease

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

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

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

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, *Hedges of a Net Investment in a Foreign Operation*, are subsequently carried at fair value. To the extent to which they are effective, changes to the fair value of hedging instruments are recognised in other comprehensive income, with all other fair value changes recognised through profit or loss in the period in which they arise.

- All other financial assets and liabilities are measured at amortised cost, using the effective interest method (except for short-term receivables and payables when the recognition of interest would be immaterial).

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

Financial investments
The Group accounts for financial assets under IAS 39 and classifies its financial investments as either financial assets at fair value through profit or loss (designated as such or held for trading), as financial assets at fair value through other comprehensive income or as loans and receivables.

(a) Financial assets at fair value through profit or loss

Financial investments are classified into this category if they are managed, and their performance evaluated, on a fair value basis. Purchases and sales of these investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the assets, at their fair value adjusted for transaction costs. Financial investments within this category are classified as held for trading if they are derivatives that are not accounted for as a net investment hedge or are acquired principally for the purpose of selling in the near term.

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

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

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

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

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

Notes to the financial statements
1 Accounting policies (continued)

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

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

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

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

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

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

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

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

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

Leases
Group as a lessee
From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the lease asset is available for use by the Group. Each lease payment is deducted from the lease liability. Finance costs are charged to the profit and loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Lease liabilities include the net present value of:

- fixed payments less any lease incentives receivable;
- variable lease payments that are based on an index or rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of an option if the lessee is reasonably certain to exercise that option; and
- payments and penalties from terminating the lease, if the lease term reflects the lessee exercising that option.

Notes to the financial statements
1 Accounting policies (continued)

Right-of-use assets are initially measured at cost and subsequently measured as cost less accumulated depreciation and comprises:

- the amount of the initial measurement of lease liability;
- any lease payment made at or before the commencement date, less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are presented within property, plant and equipment in the statement of financial position.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

In the prior period, leases, where a significant portion of the risks and rewards of ownership was retained by the lessor, were classified as operating leases. Payments made as lessees under operating leases were 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 was credited to profit or loss on a straight-line basis over the period of the lease. Lease incentives were recognised on a straight-line basis over the period of the lease.

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

Group as a lessor
The Group enters into lease agreements as a lessor with respect to some of its investment properties. The Group also sublets property no longer occupied by the Group.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

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

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

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

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

Notes to the financial statements
1 Accounting policies (continued)

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.

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

Notes to the financial statements

2 Critical accounting estimates and judgements in applying accounting policies

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

Pension and other post-employment benefits

The Group's pension and other post-employment benefit obligations are discounted at a rate set by reference to market yields at the end of the reporting period on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds includes the nature and quality of the corporate bonds and the identification of outliers which are excluded. Further details are disclosed in note 19.

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

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

Goodwill impairment
Goodwill is allocated to a cash-generating unit (CGU) and assessed annually for impairment. The CGU is defined in accordance with IAS 36. Judgement is required when assessing which assets and liabilities form part of the CGU, particularly in assessing the level of excess cash held above the working capital requirements of the CGU.

Leases
In determining the lease term, consideration is given to all facts and circumstances that create an economic incentive to exercise an extension option or not exercise a termination option. Extension options are only included in the lease term if the lease is reasonably certain to be extended.

Most extension options have not been included in the lease liability because the Group could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or change in circumstances occurs, which affects this assessment and is within the control of the Group.

(b) Key sources of estimation uncertainty
In applying the Group's accounting policies various transactions and balances are valued using estimates or assumptions. All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions.

There is uncertainty as to the economic effect that Brexit 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.

The table below summarises written premiums for the financial year, before and after reinsurance, by territory and by class of business:

2019		General insurance				Life insurance	
Group		**Property £000**	**Liability £000**	**Miscellaneous financial loss £000**	**Other £000**	**Funeral plans £000**	**Total £000**
Territory							
United Kingdom and Ireland	Gross	185,567	56,323	15,534	3,227	(13)	260,638
	Net	100,233	53,773	9,147	622	(13)	163,762
Australia	Gross	42,331	24,412	1,245	869	-	68,857
	Net	5,083	21,053	1,198	170	-	27,504
Canada	Gross	44,079	20,378	-	-	-	64,457
	Net	30,902	18,898	-	-	-	49,800
Total	Gross	271,977	101,113	16,779	4,096	(13)	393,952
	Net	136,218	93,724	10,345	792	(13)	241,066
Parent							
Territory							
United Kingdom and Ireland	Gross	185,567	56,323	15,534	3,227	-	260,651
	Net	100,233	53,773	9,147	611	-	163,764
Canada	Gross	44,079	20,378	-	-	-	64,457
	Net	30,902	18,898	-	-	-	49,800
Total	Gross	229,646	76,701	15,534	3,227	-	325,108
	Net	131,135	72,671	9,147	611	-	213,564

Notes to the financial statements

3 Insurance risk (continued)

2018		General insurance				Life insurance	
Group		**Property £000**	**Liability £000**	**Miscellaneous financial loss £000**	**Other £000**	**Funeral plans £000**	**Total £000**
Territory							
United Kingdom and Ireland	Gross	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

(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 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, equity price and currency risk.

There has been no change from the prior period in the nature of the financial risks to which the Group is exposed. 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) Categories applying IAS 39

	Financial assets				Financial liabilities			
Group	Designated at fair value £000	Held for trading £000	Loans and receivables £000	Hedge accounted derivatives £000	Held for trading £000	Financial liabilities* £000	Other assets and liabilities £000	Total £000
At 31 December 2019								
Financial investments	**848,573**	**3,061**	**5,770**	**509**	**-**	**-**	**-**	**857,913**
Other assets	**-**	**-**	**173,996**	**-**	**-**	**-**	**4,362**	**178,358**
Cash and cash equivalents	**-**	**-**	**74,775**	**-**	**-**	**-**	**-**	**74,775**
Finance lease obligations	**-**	**-**	**-**	**-**	**-**	**(12,923)**	**-**	**(12,923)**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**(65,634)**	**(11,318)**	**(76,952)**
Net other	**-**	**-**	**-**	**-**	**-**	**-**	**(413,636)**	**(413,636)**
Total	**848,573**	**3,061**	**254,541**	**509**	**-**	**(78,557)**	**(420,592)**	**607,535**
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
Finance lease obligations	-	-	-	-	-	(1,379)	-	(1,379)
Other liabilities	-	-	-	-	(2,306)	(60,969)	(8,644)	(71,919)
Net other	-	-	-	-	-	-	(402,719)	(402,719)
Total	782,976	5,331	268,466	737	(2,306)	(62,348)	(406,852)	586,004

Parent	Designated at fair value £000	Held for trading £000	Loans and receivables £000	Hedge accounted derivatives £000	Held for trading £000	Financial liabilities* £000	Other assets and liabilities £000	Total £000
At 31 December 2019								
Financial investments	**638,088**	**3,311**	**5,766**	**259**	**-**	**-**	**49,729**	**697,153**
Other assets	**-**	**-**	**130,220**	**-**	**-**	**-**	**3,573**	**133,793**
Cash and cash equivalents	**-**	**-**	**42,248**	**-**	**-**	**-**	**-**	**42,248**
Finance lease obligations	**-**	**-**	**-**	**-**	**-**	**(10,328)**	**-**	**(10,328)**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**(36,543)**	**(9,023)**	**(45,566)**
Net other	**-**	**-**	**-**	**-**	**-**	**-**	**(292,543)**	**(292,543)**
Total	**638,088**	**3,311**	**178,234**	**259**	**-**	**(46,871)**	**(248,264)**	**524,757**
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
Finance lease obligations	-	-	-	-	-	(1,379)	-	(1,379)
Other liabilities	-	-	-	-	(2,306)	(37,994)	(6,955)	(47,255)
Net other	-	-	-	-	-	-	(282,310)	(282,310)
Total	570,353	5,823	195,272	245	(2,306)	(39,373)	(235,167)	494,847

* Financial liabilities are held at amortised cost.

The carrying value of those financial assets and liabilities not carried at fair value in the financial statements is considered to approximate to their fair value.

Notes to the financial statements
4 Financial risk and capital management (continued)

(ii) Categories of financial assets applying IFRS 9

As disclosed in note 1, the Group has chosen to defer application of IFRS 9 and classifies and measures financial instruments using IAS 39. To facilitate comparison with entities applying IFRS 9, the table below sets out the Group's financial assets at the balance sheet date, split between those which have contractual cash flows that are solely payments of principal and interest on the principal outstanding (SPPI), other than those which are held for trading or whose performance is evaluated on a fair value basis, and all other financial assets.

Group	2019 SPPI financial assets £000	2019 Other financial assets £000	2019 Total financial assets £000	2018 SPPI financial assets £000	2018 Other financial assets £000	2018 Total financial assets £000
Financial investments	5,770	852,143	857,913	9,930	789,044	798,974
Cash and cash equivalents	74,775	-	74,775	109,417	-	109,417
Other financial assets	173,996	-	173,996	149,119	-	149,119
Total fair value	254,541	852,143	1,106,684	268,466	789,044	1,057,510

Parent	2019 SPPI financial assets £000	2019 Other financial assets £000	2019 Total financial assets £000	2018 SPPI financial assets £000	2018 Other financial assets £000	2018 Total financial assets £000
Financial investments	5,766	641,658	647,424	9,928	576,421	586,349
Cash and cash equivalents	42,248	-	42,248	72,775	-	72,775
Other financial assets	130,220	-	130,220	112,569	-	112,569
Total fair value	178,234	641,658	819,892	195,272	576,421	771,693

There has been a £13,925,000 decrease (2018: £19,269,000 increase) in the fair value of SPPI financial assets of the Group, and a £63,099,000 increase (2018: £60,766,000 decrease) in the fair value of other financial assets of the Group during the reporting period. There has been a £17,038,000 decrease (2018: £22,711,000 increase) in the fair value of SPPI financial assets of the Parent, and a £65,237,000 increase (2018: £50,138,000 decrease) in the fair value of other financial assets of the Parent during the reporting period.

Notes to the financial statements
4 Financial risk and capital management (continued)

(b) Fair value hierarchy

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

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

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

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

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

Analysis of fair value measurement bases Group	Fair value measurement at the end of the reporting period based on Level 1 £000	Level 2 £000	Level 3 £000	Total £000
At 31 December 2019				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	289,165	190	66,703	356,058
Debt securities	490,911	1,200	404	492,515
Derivatives	-	3,061	-	3,061
	780,076	4,451	67,107	851,634
Financial assets at fair value through other comprehensive income				
Financial investments				
Derivatives	-	509	-	509
Total financial assets at fair value	780,076	4,960	67,107	852,143
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

Notes to the financial statements
4 Financial risk and capital management (continued)

Parent	Fair value measurement at the end of the reporting period based on Level 1 £000	Level 2 £000	Level 3 £000	Total £000
At 31 December 2019				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	**263,478**	**190**	**66,523**	**330,191**
Debt securities	**306,661**	**832**	**404**	**307,897**
Derivatives	**-**	**3,311**	**-**	**3,311**
	570,139	**4,333**	**66,927**	**641,399**
Financial assets at fair value through other comprehensive income				
Financial investments				
Derivatives	**-**	**259**	**-**	**259**
Total financial assets at fair value	**570,139**	**4,592**	**66,927**	**641,658**
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

The derivative liabilities of the Group and Parent in the prior year were measured at fair value through profit or loss and categorised as level 2 (see note 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 or loss Equity securities £000	Debt securities £000	Total £000
At 31 December 2019			
Opening balance	**44,773**	**261**	**45,034**
Total gains recognised in profit or loss	**7,538**	**143**	**7,681**
Purchases	**14,392**	**-**	**14,392**
Closing balance	**66,703**	**404**	**67,107**
Total gains for the period included in profit or loss for assets held at the end of the reporting period	**7,539**	**143**	**7,682**
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

Notes to the financial statements
4 Financial risk and capital management (continued)

Parent	Financial assets at fair value through profit or loss Equity securities £000	Debt securities £000	Total £000
At 31 December 2019			
Opening balance	**44,771**	**261**	**45,032**
Total gains recognised in profit or loss	**7,539**	**143**	**7,682**
Purchases	**14,213**	**-**	**14,213**
Closing balance	**66,523**	**404**	**66,927**
Total gains for the period included in profit or loss for assets held at the end of the reporting period	**7,539**	**143**	**7,682**
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

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

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

Listed debt and equity securities not in active market (level 2)
These financial assets are valued using third-party pricing information that is regularly reviewed and internally calibrated based on management's knowledge of the markets.

Non-exchange-traded derivative contracts (level 2)
The Group's derivative contracts are not traded in active markets. Foreign currency forward contracts are valued using observable forward exchange rates corresponding to the maturity of the contract and the contract forward rate. Over-the-counter equity or index options and futures are valued by reference to observable index prices.

Unlisted equity securities (level 3)
These financial assets are valued using observable net asset data, adjusted for unobservable inputs including comparable price-to-book ratios based on similar listed companies, and management's consideration of constituents as to what exit price might be obtainable.

The valuation is sensitive to the level of underlying net assets, the Euro exchange rate, the price-to-book ratio 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 illiquidity discount or credit rating discount applied changes by +/-10%, the value of unlisted equity securities could move by +/-£7m (2018: +/-£5m).

Unlisted debt (level 3)
Unlisted debt is valued using an adjusted net asset method whereby management uses a look-through approach to the underlying assets supporting the loan, discounted using observable market interest rates of similar loans with similar risk, and allowing for unobservable future transaction costs.

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

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4 Financial risk and capital management (continued)

(c) Interest rate risk

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

Interest rate risk concentration is reduced by adopting asset-liability duration matching principles where appropriate. Excluding assets held to back the life business, the average duration of the Group's fixed income portfolio is three years (2018: 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 Within 1 year £000	Between 1 & 5 years £000	After 5 years £000	Total £000
At 31 December 2019				
Assets				
Debt securities	**6,066**	**28,732**	**65,093**	**99,891**
Cash and cash equivalents	**2,584**	**-**	**-**	**2,584**
	8,650	**28,732**	**65,093**	**102,475**
Liabilities (discounted)				
Life business provision	**5,517**	**19,223**	**54,472**	**79,212**
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

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

Notes to the financial statements
4 Financial risk and capital management (continued)

(d) Credit risk

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

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

The Group is exposed to minimal credit risk in relation to all other financial assets.

The carrying amount of financial and reinsurance assets represents the Group's maximum exposure to credit risk. The Group structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty. Limits on the level of credit risk are regularly reviewed. Where available the Group also manages its exposure to credit risk in relation to credit risk ratings. Investment grade financial assets are classified within the range of AAA to BBB ratings, where AAA is the highest possible rating. Financial assets which fall outside this range are classified as sub-investment grade. 'Not rated' assets capture assets not rated by external ratings agencies.

The following table provides information regarding the credit risk exposure of financial assets with external credit ratings from Standard & Poors or an equivalent rating from a similar agency. This includes financial assets that meet the definition of 'solely payments of principal and interest' (SPPI), as detailed in note 4(a)(ii).

Group	SPPI Cash and cash equivalents*	Reinsurance debtors	Other financial assets	Total SPPI	Non-SPPI Debt securities
At 31 December 2019	**£000**	**£000**	**£000**	**£000**	**£000**
AAA	**-**	**-**	**-**	**-**	**113,359**
AA	**19,760**	**1,286**	**-**	**21,046**	**138,341**
A	**17,269**	**8,856**	**-**	**26,125**	**132,419**
BBB	**42,713**	**3**	**-**	**42,716**	**89,563**
Below BBB	**-**	**-**	**-**	**-**	**9,537**
Not rated	**7**	**1,032**	**163,615**	**164,654**	**9,296**
	79,749	**11,177**	**163,615**	**254,541**	**492,515**
At 31 December 2018					
AAA	-	-	-	-	126,227
AA	23,316	2,788	-	26,104	142,426
A	55,090	8,058	-	63,148	115,026
BBB	40,826	3	-	40,829	91,471
Below BBB	91	-	-	91	12,197
Not rated	7	763	137,524	138,294	9,495
	119,330	11,612	137,524	268,466	496,842

*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.

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4 Financial risk and capital management (continued)

Parent	SPPI				Non-SPPI
	Cash and cash equivalents*	Reinsurance debtors	Other financial assets	Total SPPI	Debt securities
At 31 December 2019	**£000**	**£000**	**£000**	**£000**	**£000**
AAA	**-**	**-**	**-**	**-**	**72,366**
AA	**8,540**	**783**	**-**	**9,323**	**73,979**
A	**14,748**	**2,865**	**-**	**17,613**	**97,184**
BBB	**23,927**	**3**	**-**	**23,930**	**51,712**
Below BBB	**-**	**-**	**-**	**-**	**4,560**
Not rated	**7**	**272**	**127,089**	**127,368**	**8,096**
	47,222	**3,923**	**127,089**	**178,234**	**307,897**
At 31 December 2018					
AAA	-	-	-	-	90,548
AA	10,682	1,704	-	12,386	72,006
A	50,599	2,658	-	53,257	77,011
BBB	21,310	3	-	21,313	61,317
Below BBB	91	-	-	91	7,197
Not rated	7	763	107,455	108,225	7,423
	82,689	5,128	107,455	195,272	315,502

*Cash includes amounts held on deposit classified within financial investments and disclosed in note 22. Cash balances which are not rated relate to cash amounts in hand.

For financial assets meeting the SPPI test that do not have low credit risk, the carrying amount disclosed above is an approximation of their fair value.

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

The debt securities portfolio consists of a range of mainly fixed interest instruments including government securities, local authority issues, corporate loans and bonds, overseas bonds, preference shares and other interest-bearing securities. Limits are imposed on the credit ratings of the corporate bond portfolio and exposures regularly monitored. Group investments in unlisted securities represent less than 1% of this category in the current and prior year.

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

	2019 Group £000	2019 Parent £000
UK	**301,225**	**201,333**
Australia	**84,726**	**-**
Canada	**86,293**	**86,293**
Europe	**20,271**	**20,271**
Total	**492,515**	**307,897**

	2018 Group £000	2018 Parent £000
UK	317,137	218,698
Australia	82,901	-
Canada	72,301	72,301
Europe	24,503	24,503
Total	496,842	315,502

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

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

Notes to the financial statements
4 Financial risk and capital management (continued)

(e) Equity price risk

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

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

	2019 Group £000	2019 Parent £000
UK	**289,566**	**263,699**
Europe	**66,302**	**66,302**
Hong Kong	**190**	**190**
Total	**356,058**	**330,191**

	2018 Group £000	2018 Parent £000
UK	241,116	209,833
Europe	44,821	44,821
Hong Kong	197	197
Total	286,134	254,851

(f) Currency risk

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

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

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

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

The forward foreign currency risk arising on translation of these foreign operations is hedged by the derivatives which are detailed in note 22. The Group has designated certain derivatives as a hedge of its net investments in Canada and Australia, which have Canadian and Australian dollars respectively as their functional currency.

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

	2019 Group £000	2019 Parent £000
Euro	**65,305**	**65,305**
Aus $	**41,912**	**2,282**
Can $	**33,722**	**33,722**
USD $	**2,028**	**2,028**
HKD $	**176**	**176**

	2018 Group £000	2018 Parent £000
Aus $	47,838	3,388
Euro	42,538	42,538
Can $	31,024	31,024
NZ $	1,043	1,043
USD $	1,004	1,004

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 lease liabilities, for which a maturity analysis is included in note 32, and other liabilities for which a maturity analysis is included in note 31.

(h) Market risk sensitivity analysis

The sensitivity of profit and other equity reserves to movements on market risk variables (comprising interest rate, currency and equity price risk), each considered in isolation and before the mitigating effect of derivatives, is shown in the table below. This table does not include the impact of variables on retirement benefit schemes. Financial risk sensitivities for retirement benefit schemes are disclosed separately in note 19.

Group		Potential increase/ (decrease) in profit		Potential increase/ (decrease) in other equity reserves	
Variable	**Change in variable**	**2019 £000**	2018 £000	**2019 £000**	2018 £000
Interest rate risk	-100 basis points	**(6,724)**	(4,730)	**(25)**	-
	+100 basis points	**4,133**	2,799	**37**	(3)
Currency risk	-10%	**6,330**	4,772	**7,628**	7,613
	+10%	**(5,179)**	(3,904)	**(6,241)**	(6,229)
Equity price risk	+/-10%	**28,841**	23,177	**-**	-

Parent		Potential increase/ (decrease) in profit		Potential increase/ (decrease) in other equity reserves	
Variable	**Change in variable**	**2019 £000**	2018 £000	**2019 £000**	2018 £000
Interest rate risk	-100 basis points	**(5,267)**	(3,558)	**(19)**	(6)
	+100 basis points	**3,028**	2,154	**29**	4
Currency risk	-10%	**6,331**	4,772	**3,224**	2,674
	+10%	**(5,180)**	(3,904)	**(2,638)**	(2,188)
Equity price risk	+/-10%	**26,745**	20,643	**-**	-

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

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

Notes to the financial statements
4 Financial risk and capital management (continued)

(i) Capital management

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

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

The Group is subject to insurance solvency regulations in all the territories in which it issues insurance and investment contracts, and capital is managed and evaluated on the basis of both regulatory and economic capital, at a group and parent entity level.

In the UK, the Group and its UK regulated entities are required to comply with rules issued by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA).

Capital is assessed at both individual regulated entity and group level. The PRA expects a firm, at all times, to hold Solvency II Own Funds in excess of its calculated Solvency Capital Requirement (SCR). Group solvency is assessed at the level of Ecclesiastical Insurance Office plc (EIO)'s parent, Ecclesiastical Insurance Group plc (EIG). Consequently, there is no directly comparable solvency measure for EIO group. Both quarterly and annual quantitative returns are submitted to the PRA, in addition to an annual narrative report, the Solvency and Financial Condition Report (SFCR) which is also published on the company's website. A further report, the Regular Supervisory Report (RSR) is periodically submitted to the PRA.

The current year figures in the table below are unaudited and based on the latest information provided to management. The prior year figures in the table below are 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 7 April 2020 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 19 May 2020, with its SFCR also being made available on the Group's website shortly after.

	2019 (unaudited)		2018 (unaudited)*	
	Ecclesiastical Insurance Office plc Parent £000	**Ecclesiastical Life Limited £000**	Ecclesiastical Insurance Office plc Parent £000	Ecclesiastical Life Limited £000
Solvency II Own Funds	**570,083**	**49,120**	551,857	52,583
Solvency Capital Requirement	**(264,251)**	**(15,976)**	(256,898)	(15,879)
Own Funds in excess of Solvency Capital Requirement	**305,832**	**33,144**	294,959	36,704
Solvency II Capital Cover	**216%**	**307%**	215%	331%

*Unaudited with the exception of EIO parent's Solvency II Own Funds.

Economic capital is the Group's own internal view of the level of capital required, and this measure is an integral part of the Own Risk and Solvency Assessment Report (ORSA) which is a private, internal forward-looking assessment of own risk, as required as part of the Solvency II regime. Risk appetite is set such that the target level of economic capital is always higher than the regulatory SCR.

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5 Segment information

(a) Operating segments

The Group segments its business activities on the basis of differences in the products and services offered and, for general insurance, the underwriting territory. Expenses relating to Group management activities are included within 'Corporate costs'. This reflects the management and internal Group reporting structure.

The activities of each operating segment are described below.

- General business

United Kingdom and Ireland

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

Australia

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

Canada

The Group operates a general insurance Ecclesiastical branch in Canada.

Other insurance operations

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

- Investment management

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

- Broking and advisory

The Group provides insurance broking through 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. Consequently, their accounting policies for financial instruments may differ, but all other accounting policies are the same as the Group.

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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.

	2019 Gross written premiums £000	**2019** Non-insurance services £000	**2019** Total £000	2018 Gross written premiums £000	2018 Non-insurance services £000	2018 Total £000
General business						
United Kingdom and Ireland	**257,135**	**-**	**257,135**	242,339	-	242,339
Australia	**68,857**	**-**	**68,857**	56,946	-	56,946
Canada	**64,457**	**-**	**64,457**	54,158	-	54,158
Other insurance operations	**3,516**	**-**	**3,516**	3,507	-	3,507
Total	**393,965**	**-**	**393,965**	356,950	-	356,950
Life business	**(13)**	**-**	**(13)**	21	-	21
Investment management	**-**	**12,795**	**12,795**	-	12,601	12,601
Broking and Advisory	**-**	**9,078**	**9,078**	-	9,049	9,049
Group revenue	**393,952**	**21,873**	**415,825**	356,971	21,650	378,621

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

Segment result

General business segment results comprise the insurance underwriting profit or loss, investment activities and other expenses of each underwriting territory. The Group uses the industry standard net combined operating ratio (COR) as a measure of underwriting efficiency. The COR expresses the total of net claims costs, commission and underwriting expenses as a percentage of net earned premiums. Further details on the underwriting profit or loss and COR, which are alternative performance measures that are not defined under IFRS, are detailed in note 36.

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

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

2019	***Combined operating ratio***	**Insurance £000**	**Investments £000**	**Other £000**	**Total £000**
General business					
United Kingdom and Ireland	**86.8%**	**20,412**	**59,433**	**(292)**	**79,553**
Australia	**114.1%**	**(3,246)**	**1,815**	**(65)**	**(1,496)**
Canada	**95.1%**	**2,218**	**1,805**	**(174)**	**3,849**
Other insurance operations		**634**	**-**	**-**	**634**
	91.1%	**20,018**	**63,053**	**(531)**	**82,540**
Life business		**335**	**6,486**	**-**	**6,821**
Investment management		**-**	**-**	**(310)**	**(310)**
Broking and Advisory		**-**	**-**	**2,062**	**2,062**
Corporate costs		**-**	**-**	**(17,850)**	**(17,850)**
Profit/(loss) before tax		**20,353**	**69,539**	**(16,629)**	**73,263**

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5 Segment information (continued)

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

(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:

	2019		2018	
	Gross written premiums £000	**Non-current assets £000**	Gross written premiums £000	Non-current assets £000
United Kingdom and Ireland	**260,638**	**235,859**	245,867	218,119
Australia	**68,857**	**4,348**	56,946	1,279
Canada	**64,457**	**8,272**	54,158	4,018
	393,952	**248,479**	356,971	223,416

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 2019			
Gross written premiums	**393,965**	**(13)**	**393,952**
Outward reinsurance premiums	**(152,886)**	**-**	**(152,886)**
Net written premiums	**241,079**	**(13)**	**241,066**
Change in the gross provision for unearned premiums	**(23,829)**	**-**	**(23,829)**
Change in the provision for unearned premiums, reinsurers' share	**8,749**	**-**	**8,749**
Change in the net provision for unearned premiums	**(15,080)**	**-**	**(15,080)**
Earned premiums, net of reinsurance	**225,999**	**(13)**	**225,986**
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

Notes to the financial statements

7 Fee and commission income

During the year, the Group recognised £49,065,000 (2018: £41,116,000) fee and commission income in accordance with IFRS 4, *Insurance Contracts* and £22,175,000 (2018: £21,880,000) 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 2019			
General business	**302**	**-**	**302**
Investment management	**108**	**12,687**	**12,795**
Broking and advisory	**9,078**	**-**	**9,078**
	9,488	**12,687**	**22,175**
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

8 Net investment return

	2019 £000	2018 £000
Income from financial assets at fair value through profit or loss		
- equity income	**9,580**	9,794
- debt income	**14,221**	15,027
Income from financial assets calculated using the effective interest rate method		
- cash and cash equivalents income	**605**	839
- other income received	**1,795**	1,289
Other income		
- rental income	**8,519**	8,238
- exchange movements	**60**	84
Investment income	**34,780**	35,271
Fair value movements on financial instruments at fair value through profit or loss	**55,991**	(35,450)
Fair value movements on investment property	**(3,900)**	(56)
Fair value movements on property, plant and equipment	**-**	85
Impact of discount rate change on insurance contract liabilities	**(12,433)**	4,144
Net investment return	**74,438**	3,994

Included within fair value movements on financial instruments at fair value through profit or loss are gains of £162,000 (2018: £1,873,000 - previously reported as a loss of £325,000) in respect of derivative instruments.

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9 Claims and change in insurance liabilities and reinsurance recoveries

	General business £000	Life business £000	Total £000
For the year ended 31 December 2019			
Gross claims paid	139,221	5,562	144,783
Gross change in the provision for claims	18,260	-	18,260
Gross change in life business provision	-	(5,235)	(5,235)
Claims and change in insurance liabilities	157,481	327	157,808
Reinsurers' share of claims paid	(40,808)	-	(40,808)
Reinsurers' share of change in the provision for claims	(11,992)	-	(11,992)
Reinsurance recoveries	(52,800)	-	(52,800)
Claims and change in insurance liabilities, net of reinsurance	104,681	327	105,008
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

10 Fees, commissions and other acquisition costs

	2019 £000	2018 £000
Fees paid	14	15
Commission paid	62,134	55,551
Change in deferred acquisition costs	(4,553)	(3,078)
Other acquisition costs	15,145	13,858
Fees, commissions and other acquisition costs	72,740	66,346

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11 Profit for the year

	2019 £000	2018 £000
Profit for the year has been arrived at after (crediting)/charging		
Net foreign exchange gains	(60)	(84)
Depreciation of property, plant and equipment	5,081	2,437
Loss/(profit) on disposal of property, plant and equipment	171	(3)
Amortisation of intangible assets	1,000	927
Decrease in fair value of investment property	3,900	56
Employee benefits expense including termination benefits, net of recharges	86,065	82,811

12 Auditor's remuneration

	2019 £000	2018 £000
Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts	497	386
Fees payable to the Company's auditor and its associates for other services:		
- The audit of the Company's subsidiaries	179	152
Total audit fees	676	538
- Audit-related assurance services	164	135
- Other assurance services	-	-
Total non-audit fees	164	135
Fees payable to the Company's auditor in respect of associated pension schemes		
- The audit of associated pension schemes	17	18
Total auditor's remuneration	857	691

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

The Company's policy on the use of the auditor for non-audit services is detailed in the Group Audit Committee Report in the Corporate Governance section of the Annual Report and Accounts.

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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	2019 General business No.	2019 Life business No.	2019 Other No.	2018 General business No.	2018 Life business No.	2018 Other No.
United Kingdom and Ireland	**781**	**1**	**181**	771	1	173
Australia	**97**	**-**	**-**	96	-	-
Canada	**84**	**-**	**-**	77	-	-
	962	**1**	**181**	944	1	173

Parent	2019 General business No.	2019 Life business No.	2019 Other No.	2018 General business No.	2018 Life business No.	2018 Other No.
United Kingdom and Ireland	**781**	**1**	**82**	771	1	74
Canada	**84**	**-**	**-**	77	-	-
	865	**1**	**82**	848	1	74

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.

	2019 Group £000	2019 Parent £000	2018 Group £000	2018 Parent £000
Key management personnel				
Wages and salaries	**4,713**	**4,713**	4,208	4,208
Social security costs	**443**	**443**	481	481
Pension costs - defined contribution plans	**213**	**213**	235	235
	5,369	**5,369**	4,924	4,924
Other employees				
Wages and salaries	**69,657**	**58,255**	62,888	52,178
Social security costs	**6,567**	**6,134**	5,821	5,408
Pension costs - defined contribution plans	**4,578**	**3,801**	5,491	4,819
Pension costs - defined benefit plans	**1,812**	**1,812**	4,952	4,952
Other post-employment benefits	**154**	**154**	259	259
Total staff costs	**88,137**	**75,525**	84,335	72,540
Staff costs recharged to related undertakings of the Group	**(1,340)**	**(8,278)**	(1,286)	(7,153)
Capitalised staff costs	**(1,090)**	**(1,090)**	(342)	(342)
	85,707	**66,157**	82,707	65,045

The above Group figures do not include termination benefits of £358,000 (2018: £129,000), none of which was recharged to related undertakings of the Group (2018: £25,000). The above Parent figures do not include termination benefits of £135,000 (2018: £66,000), of which £33,000 (2018: £25,000) was recharged to related undertakings of the Parent.

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 2018 include a one-off contribution of £2,017,000 that was paid by the Company during 2019 following closure of the defined benefit pension plan to future accrual.

Notes to the financial statements

14 Tax expense

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

		2019 £000	2018 £000
Current tax	- current year	**5,893**	8,873
	- prior year adjustments	**808**	(292)
Deferred tax	- temporary differences	**4,749**	(7,623)
Total tax expense		**11,450**	958

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:

	2019 £000	2018 £000
Profit before tax	**73,263**	15,371
Tax calculated at the UK standard rate of tax of 19% (2018: 19%)	**13,920**	2,920
Factors affecting charge for the year:		
Expenses not deductible for tax purposes	**463**	(112)
Non-taxable income	**(3,110)**	(1,538)
Life insurance and other tax paid at non-standard rates	**(198)**	193
Utilisation of tax losses for which no deferred tax asset has been recognised	**(433)**	(213)
Adjustments to tax charge in respect of prior periods	**808**	(292)
Total tax expense	**11,450**	958

A change in the UK standard rate of corporation tax from 19% to 17% will become effective from 1 April 2020. Deferred tax has been provided at an average rate of 17% (2018: 17%).

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

	2019 £000	2018 £000
Current tax charged on:		
Fair value movements on hedge derivatives	**129**	110
Deferred tax (credited)/charged on:		
Fair value movements on property	**-**	18
Actuarial movements on retirement benefit plans	**(1,198)**	729
Fair value movements on hedge derivatives	**(110)**	77
Total tax (credited)/charged to other comprehensive income	**(1,179)**	934

Tax relief on charitable grants of £5,497,000 (2018: £3,230,000) has been taken directly to equity.

Notes to the financial statements

15 Appropriations

	2019 £000	2018 £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	30,000	17,000
Tax relief	(5,497)	(3,230)
Net appropriation for the year	24,503	13,770

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 Brokers. Both acquisitions were in order to further expand 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 £23,000 (2018: £63,000) and the movement in the fair value, as shown in note 29, is due to amounts paid in the year. Based on the actual policies converted in the period to 31 December 2019 the potential future payment is between £23,000 and £32,000 (2018: £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 prior period balance sheet date.

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17 Goodwill and other intangible assets

Group	Goodwill £000	Computer software £000	Other intangible assets £000	Total £000
Cost				
At 1 January 2019	23,779	23,453	5,376	52,608
Additions	-	9,613	-	9,613
Disposals	-	(4)	-	(4)
Exchange differences	-	7	-	7
At 31 December 2019	23,779	33,069	5,376	62,224
Accumulated impairment losses and amortisation				
At 1 January 2019	328	17,686	4,530	22,544
Amortisation charge for the year	-	838	162	1,000
Impairment losses for the year	16	-	-	16
Disposals	-	(4)	-	(4)
Exchange differences	-	17	-	17
At 31 December 2019	344	18,537	4,692	23,573
Net book value at 31 December 2019	23,435	14,532	684	38,651
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

£16,885,000 of the goodwill balance in the current and prior year relates to the 2008 acquisition of South Essex Insurance Holdings Limited. £4,392,000 of the current and prior period balance relates to the acquisition of Lansdown Insurance Brokers Limited during 2014.

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% (2018: 1.6%) as being appropriate, based on medium-term rates published in the OBR's November report. The pre-tax discount rate of 9.2% (2018: 9.8%) 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 £8.8m (2018: £8.4m). If the cumulative growth rate between 2020 and 2022 was 4.5% lower than assumed in management-approved business plans, or the discount rate increased by 2.5%, 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.

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17 Goodwill and other intangible assets (continued)

Other intangible assets consist of acquired brand, customer and distribution relationships, which have an overall remaining useful life of one year on a weighted average basis (2018: one year).

Parent	**Computer software**	
	2019 £000	2018 £000
Cost		
At 1 January	**21,495**	19,567
Additions	**7,615**	2,060
Disposals	**(4)**	(11)
Exchange differences	**57**	(121)
At 31 December	**29,163**	21,495
Amortisation		
At 1 January	**16,646**	15,999
Charge for the year	**589**	699
Disposals	**(4)**	(11)
Exchange differences	**18**	(41)
At 31 December	**17,249**	16,646
Net book value at 31 December	**11,914**	4,849

18 Deferred acquisition costs

	2019		2018	
	Group £000	**Parent £000**	Group £000	Parent £000
At 1 January	**33,907**	**27,812**	31,267	25,628
Increase in the period	**38,529**	**31,283**	34,041	27,857
Release in the period	**(33,976)**	**(27,976)**	(30,963)	(25,493)
Exchange differences	**(261)**	**14**	(438)	(180)
At 31 December	**38,199**	**31,133**	33,907	27,812

All balances are current.

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19 Retirement benefit schemes

Defined contribution pension plans

The Group operates a number of defined contribution pension plans, for which contributions by the Group are disclosed in note 13.

Defined benefit pension plans

The Group's defined benefit plan is operated by the Parent in the UK, which includes two discrete sections, the EIO Section and Ansvar Section. The plan closed to new entrants on 5 April 2006. The terms of the plan for future service changed in August 2011 from a non-contributory final salary scheme to a contributory scheme in which benefits are based on career average revalued earnings. The scheme closed to future accrual on 30 June 2019 in line with the Company's announcement in the prior year. Active members in employment at 30 June 2019 retained certain enhanced benefits after the plan closed 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. From 1 July 2019, active members in employment joined 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. As the scheme is closed to future accrual, no contribution is expected to be paid by the Group in 2020 (2018: £1.3m to 30 June 2019).

Actuarial valuations were reviewed and updated by an actuary at 31 December 2019 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 2019 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 the prior year, 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 was estimated at £1.5m and presented as a past service cost in the statement of profit and loss. There has been no change in the estimated impact of the ruling in the current year.

In the current year, actuarial losses arising from changes in financial assumptions of £59.7m (2018: actuarial gains of £27.0m) have been recognised in the statement of other comprehensive income. These losses resulted from a 0.8% decrease in the discount rate partially offset by favourable movements in inflation.

Actuarial gains of £13.2m have been recognised in the current year (2018: £nil) as a result of changes in demographic assumptions. This is mainly due to adopting the Continuous Mortality Investigation (CMI) 2018 projections table, in place of the CMI 2016 projections table, to determine the future improvements in mortality assumption.

The defined benefit plan typically exposes the Group to risks such as:

- Investment risk: The Fund holds some of its investments in asset classes, such as equities, which have volatile market values and, while these assets are expected to provide the best returns over the long term, any short-term volatility could cause funding to be required if a deficit emerges. Derivative contracts are used from time to time, which would limit losses in the event of a fall in equity markets.

- Interest rate risk: Scheme liabilities are assessed using market rates of interest to discount the liabilities and are therefore subject to any volatility in the movement of the market rate of interest. The net interest income or expense recognised in profit or loss is also calculated using the market rate of interest. The Group's defined benefit plan holds Liability Driven Investments (LDIs) to hedge part of the exposure of the scheme's liabilities to movements in interest rates.

- Inflation risk: A significant proportion of scheme benefits are linked to inflation. Although scheme assets are expected to provide a good hedge against inflation over the long term, movements over the short term could lead to a deficit emerging. The Group's defined benefit plan holds LDIs to hedge part of the exposure of the scheme's liabilities to movements in inflation expectations.

- Mortality risk: In the event that members live longer than assumed the liabilities may be understated originally, and a deficit may emerge if funding has not adequately provided for the increased life expectancy.

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

Notes to the financial statements
19 Retirement benefit schemes (continued)

The Trustees set the investment objectives and strategy for the Fund based on independent advice and in consultation with the employer. Key factors addressed in setting strategy include the Fund's liability profile, funding level and strength of employer covenant. Their key objectives are to ensure the Fund can meet members' guaranteed benefits as they fall due, reduce the risk of assets failing to meet its liabilities over the long term and manage the volatility of returns and overall funding level.

A blend of diversified growth assets (equities and property) and protection assets (bonds, gilts and cash) are deployed to balance the level of risk to that required to provide, with confidence, a sufficient return and liquidity to continue to meet members' obligations as they fall due. The Trustees have identified the key risks faced by the Fund in meeting this objective to be falls in bond yields and rising inflation.

Assets include an LDI ('Liability Driven Investments') portfolio, structured to increase in value with decreases in interest rates and grow in line with inflation expectations. This is estimated currently to hedge 60% of the interest rate and 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 will proceed to undertake further analysis and review of the Fund's investment strategy in the first half of 2020, informed by refreshed benefits and cashflow projections prepared for the triennial valuation as at 31 December 2019 and reflecting the closure to future accrual during 2019. Their aim is to establish a Long Term Funding Target in line with guidance from the Pensions Regulator. The Trustees intend that this long term target will be reached through investment performance only and without requiring further contributions from the employer.

Group and Parent	2019 £000	2018 £000
The amounts recognised in the statement of financial position are determined as follows:		
Present value of funded obligations	(371,179)	(325,738)
Fair value of plan assets	379,684	341,869
	8,505	16,131
Restrictions on asset recognised	-	-
Net defined benefit pension scheme asset in the statement of financial position	8,505	16,131
Movements in the net defined benefit pension scheme asset recognised in the statement of financial position are as follows:		
At 1 January	16,131	20,036
Expense charged to profit or loss*	(2,101)	(5,542)
Amounts recognised in other comprehensive income	(6,811)	(974)
Contributions paid	1,286	2,611
At 31 December	8,505	16,131
The amounts recognised through profit or loss are as follows:		
Current service cost	2,130	4,124
Administration cost	433	382
Interest expense on liabilities	8,628	8,137
Interest income on plan assets	(9,090)	(8,649)
Past service cost	-	1,548
Total, included in employee benefits expense	2,101	5,542
The amounts recognised in the statement of other comprehensive income are as follows:		
Return on plan assets, excluding interest income	39,780	(24,354)
Experience losses on liabilities	(91)	(3,601)
Gains from changes in demographic assumptions	13,192	-
(Losses)/gains from changes in financial assumptions	(59,692)	26,981
Total included in other comprehensive income	(6,811)	(974)

* Charge to profit or loss includes £289,000 (2018: £590,000) in respect of member salary sacrifice contributions.

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19 Retirement benefit schemes (continued)

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

Group and Parent	2019 £000	2018 £000
Pension assets	8,505	16,131
Pension liabilities	-	-
	8,505	16,131

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

	%	%
Discount rate	1.90	2.70
Inflation (RPI)	3.00	3.20
Inflation (CPI)	2.30	2.20
Future salary increases	4.30	4.20
Future increase in pensions in deferment	2.35	2.25
Future average pension increases (linked to RPI)	2.80	3.00
Future average pension increases (linked to CPI)	1.50	1.50

Mortality rate

The average life expectancy in years of a pensioner retiring at age 65, at the year-end date, is as follows:		
Male	22.4	23.1
Female	23.9	24.6
The average life expectancy in years of a pensioner retiring at age 65, 20 years after the year-end date, is as follows:		
Male	24.1	24.9
Female	25.7	26.4

Plan assets are weighted as follows:

	£000	£000
Cash and other*	21,945	22,818
Equity instruments		
UK quoted	93,519	77,179
UK unquoted	270	125
Overseas quoted	78,282	70,397
	172,071	147,701
Liability driven investments	41,781	37,857
Debt instruments		
UK public sector quoted - fixed interest	2,411	2,440
UK non-public sector quoted - fixed interest	71,189	64,981
UK quoted - index-linked	24,232	23,351
	97,832	90,772
Derivative financial instruments	2,396	(1,981)
Property	43,659	44,702
	379,684	341,869

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

The actual return on plan assets was a gain of £48,870,000 (2018: a loss of £15,705,000).

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:

	2019 £000	2018 £000
Plan assets		
At 1 January	**341,869**	363,179
Interest income	**9,090**	8,649
Actual return on plan assets, excluding interest income	**39,780**	(24,354)
Pension benefits paid and payable	**(12,341)**	(8,216)
Contributions paid	**1,286**	2,611
At 31 December	**379,684**	341,869
Defined benefit obligation		
At 1 January	**325,738**	343,143
Current service cost	**2,130**	4,124
Administration cost	**433**	382
Past service cost	**-**	1,548
Interest cost	**8,628**	8,137
Pension benefits paid and payable	**(12,341)**	(8,216)
Experience losses on liabilities	**91**	3,601
Gains from changes in demographic assumptions	**(13,192)**	-
Losses/(gains) from changes in financial assumptions	**59,692**	(26,981)
At 31 December	**371,179**	325,738

History of plan assets and liabilities	2019 £000	2018 £000	2017 £000	2016 £000	2015 £000
Present value of defined benefit obligations	**(371,179)**	(325,738)	(343,143)	(349,570)	(276,562)
Fair value of plan assets	**379,684**	341,869	363,179	329,394	294,498
	8,505	16,131	20,036	(20,176)	17,936
Restrictions on asset recognised	**-**	-	-	(144)	(7,283)
Surplus/(deficit)	**8,505**	16,131	20,036	(20,320)	10,653

The weighted average duration of the defined benefit obligation at the end of the reporting period is 23 years (2018: 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** 2019 £000	2018 £000
Discount rate	Increase by 0.5%	**(40,500)**	(33,630)
	Decrease by 0.5%	**47,700**	39,390
Inflation	Increase by 0.5%	**33,300**	25,270
	Decrease by 0.5%	**(27,500)**	(25,070)
Salary increase	Increase by 0.5%	**5,600**	4,960
	Decrease by 0.5%	**(5,400)**	(4,750)
Life expectancy	Increase by 1 year	**15,700**	12,780
	Decrease by 1 year	**(15,600)**	(12,780)

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	2019 £000	2018 £000
Present value of unfunded obligations and net obligations in the statement of financial position	**5,998**	5,813
Movements in the net obligations recognised in the statement of financial position are as follows:		
At 1 January	**5,813**	10,932
Total expense charged to profit or loss	**154**	259
Net actuarial losses/(gains) during the year, recognised in other comprehensive income	**238**	(5,262)
Benefits paid	**(207)**	(116)
At 31 December	**5,998**	5,813
The amounts recognised through profit or loss are as follows:		
Interest cost	**154**	259
Total, included in employee benefits expense	**154**	259

The weighted average duration of the net obligations at the end of the reporting period is 13.3 years (2018: 13.5 years).

The main actuarial assumptions for the plan are a long-term increase in medical costs of 7.0% (2018: 7.2%) and a discount rate of 1.9% (2018: 2.7%). An actuarial loss of £473,000 has been recognised in the current year due to changes in financial assumptions, primarily due to the fall in discount rate. An actuarial gain of £235,000 has been recognised due to changes in demographic assumptions as explained in relation to the Group's defined benefit plan. In the prior year, an actuarial review of the assumptions used to measure the net obligation for post-employment medical benefits was carried out. As a result of this review, the methodology for setting the medical cost inflation assumption was revised, generating an actuarial gain of £1,760,000. An experience gain of £3,269,000 was 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** 2019 £000	2018 £000
Discount rate	Increase by 0.5%	**(371)**	(360)
	Decrease by 0.5%	**409**	397
Medical expense inflation	Increase by 1.0%	**782**	758
	Decrease by 1.0%	**(662)**	(642)
Life expectancy	Increase by 1 year	**529**	513
	Decrease by 1 year	**(484)**	(469)

Notes to the financial statements

20 Property, plant and equipment

Group

	Land and buildings £000	Motor vehicles £000	Furniture, fittings and equipment £000	Computer equipment £000	Right of use asset £000	Total £000
Cost or valuation						
At 31 December 2018	2,445	2,227	9,058	7,914	-	21,644
IFRS 16 transition adjustment*	-	(2,095)	74	-	12,402	10,381
At 1 January 2019	2,445	132	9,132	7,914	12,402	32,025
Additions	-	14	1,459	2,921	3,142	7,536
Disposals	-	-	(730)	(76)	(843)	(1,649)
Revaluation	-	-	-	-	-	-
Exchange differences	-	-	(20)	(11)	(106)	(137)
At 31 December 2019	2,445	146	9,841	10,748	14,595	37,775
Depreciation						
At 31 December 2018	-	843	6,082	6,328	-	13,253
IFRS 16 transition adjustment*	-	(781)	28	-	781	28
At 1 January 2019	-	62	6,110	6,328	781	13,281
Charge for the year	-	25	981	1,296	2,779	5,081
Disposals	-	-	(559)	(76)	(252)	(887)
Exchange differences	-	-	4	(9)	(17)	(22)
At 31 December 2019	-	87	6,536	7,539	3,291	17,453
Net book value at 31 December 2019	2,445	59	3,305	3,209	11,304	20,322
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

*The Group has adopted IFRS 16 from 1 January 2019 as detailed in note1.

Notes to the financial statements

20 Property, plant and equipment (continued)

Parent

	Land and buildings £000	Motor vehicles £000	Furniture, fittings and equipment £000	Computer equipment £000	Right of use asset £000	Total £000
Cost or valuation						
At 31 December 2018	2,045	2,135	8,470	7,237	-	19,887
IFRS 16 transition adjustment*	-	(2,095)	74	-	9,181	7,160
At 1 January 2019	2,045	40	8,544	7,237	9,181	27,047
Additions	-	13	1,422	2,680	3,038	7,153
Disposals	-	-	(633)	(76)	(814)	(1,523)
Revaluation	-	-	-	-	-	-
Exchange differences	-	-	(18)	5	(43)	(56)
At 31 December 2019	2,045	53	9,315	9,846	11,362	32,621
Depreciation						
At 31 December 2018	-	799	5,874	5,842	-	12,515
IFRS 16 transition adjustment*	-	(781)	28	-	781	28
At 1 January 2019	-	18	5,902	5,842	781	12,543
Charge for the year	-	11	893	1,192	2,126	4,222
Disposals	-	-	(528)	(75)	(244)	(847)
Exchange differences	-	-	3	5	(5)	3
At 31 December 2019	-	29	6,270	6,964	2,658	15,921
Net book value at 31 December 2019	2,045	24	3,045	2,882	8,704	16,700
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

*The Parent has adopted IFRS 16 from 1 January 2019 as detailed in note1.

All properties of the Group and Parent were last revalued at 31 December 2018. Valuations were carried out by Cluttons LLP, an independent professional firm of chartered surveyors who have recent experience in the location and type of properties. Valuations were carried out using standard industry methodology to determine a fair 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 of the Group on a historical cost basis is £2,444,000 (2018: £2,444,000). The value of land and buildings of the Parent on a historical cost basis is £2,044,000 (2018: £2,044,000).

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

Notes to the financial statements

21 Investment property

Group and Parent	2019 £000	2018 £000
Fair value at 1 January	152,182	152,238
Additions - subsequent expenditure	191	-
Disposals	(327)	-
Fair value losses recognised in profit or loss	(3,900)	(56)
Fair value at 31 December	148,146	152,182

The Group's investment properties were last revalued at 31 December 2019 by Cluttons LLP, an independent professional firm of chartered surveyors who have recent experience in the location and type of properties. Valuations were carried out using standard industry methodology to determine a fair 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 £8,519,000 (2018: £8,238,000) and is included in net investment return. Other operating and administrative expenses include £683,000 (2018: £473,000) relating to investment property, of which £80,000 (2018: £38,000) is in respect of properties not currently generating rental income.

22 Financial investments

Financial investments summarised by measurement category are as follows:

	2019 Group £000	2019 Parent £000	2018 Group £000	2018 Parent £000
Financial investments at fair value through profit or loss				
Equity securities				
- listed	289,754	263,888	241,361	210,080
- unlisted	66,304	66,303	44,773	44,771
Debt securities				
- government bonds	154,244	91,255	148,053	85,470
- listed	338,001	216,372	348,664	229,907
- unlisted	270	270	125	125
Derivative financial instruments				
- options	1,562	1,562	5,331	5,331
- forwards	1,499	1,749	-	492
	851,634	641,399	788,307	576,176
Financial investments at fair value through other comprehensive income				
Derivative financial instruments				
- forwards	509	259	737	245
Total financial investments at fair value	852,143	641,658	789,044	576,421
Loans and receivables				
Cash held on deposit	4,974	4,974	9,913	9,914
Other loans	796	792	17	14
Parent investments in subsidiary undertakings				
Shares in subsidiary undertakings	-	49,729	-	50,339
Total financial investments	857,913	697,153	798,974	636,688
Current	383,578	346,980	343,840	300,773
Non-current	474,335	350,173	455,134	335,915

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 £640,000 (2018: gain of £1,692,000) 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	2019 Contract/ notional amount £000	2019 Fair value asset £000	2018 Contract/ notional amount £000	2018 Fair value asset £000	2018 Fair value liability £000
Non-hedge derivatives					
Equity/Index contracts					
Options	58,588	1,562	63,077	5,331	-
Foreign exchange contracts					
Forwards (Euro)	116,603	1,499	87,514	-	2,306
Hedge derivatives					
Foreign exchange contracts					
Forwards (Australian dollar)	45,411	250	57,264	492	-
Forwards (Canadian dollar)	30,456	259	27,157	245	-
	251,058	3,570	235,012	6,068	2,306

Included with Equity/Index contracts are options with a contract/notional value of £17,997,000 (2018: £22,493,000), and fair value asset of £734,000 (2018: £2,348,000), 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).

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24 Other assets

	2019 Group £000	2019 Parent £000	2018 Group £000	2018 Parent £000
Receivables arising from insurance and reinsurance contracts				
- due from contract holders	**41,549**	**41,296**	36,709	36,369
- due from agents, brokers and intermediaries	**56,549**	**36,337**	47,025	30,770
- due from reinsurers	**11,177**	**3,923**	11,612	5,128
Other receivables				
- accrued interest and rent	**4,519**	**3,431**	4,696	3,546
- other prepayments and accrued income	**4,526**	**3,710**	4,700	3,901
- amounts owed by related parties	**39,044**	**43,239**	30,719	35,311
- debtors arising from broking activities	**6,509**	**-**	6,236	-
- net investment in finance leases	**366**	**366**	-	-
- other debtors	**14,119**	**1,491**	11,933	1,303
	178,358	**133,793**	153,630	116,328
Current	**136,999**	**90,787**	120,851	81,363
Non-current	**41,359**	**43,006**	32,779	34,965

The Group has recognised a net credit of £31,000 (2018: net charge of £30,000) in other operating and administrative expenses in the statement of profit or loss for the impairment and reversal of impairment of its trade and other receivables during the year. The Parent has recognised a net credit of of £15,000 (2018: net charge of £46,000).

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

Included within amounts owed by related parties of the Parent is £2,744,000 (2018: £3,395,000) pledged as collateral in respect of an insurance liability.

Included within other receivables of the Group is £1,255,000 (2018: £1,210,000) classified as contract assets, and £1,151,000 (2018: £1,095,000) classified as receivables in accordance with IFRS 15. Included within other receivables of the Parent is £nil (2018: £nil) classified as contract assets, and £nil (2018: £nil) classified as receivables in accordance with IFRS 15.

Movement in the allowance for doubtful debts	2019 Group £000	2019 Parent £000	2018 Group £000	2018 Parent £000
Balance at 1 January	**168**	**69**	188	69
Movement in the year	**(23)**	**-**	(20)	-
Balance at 31 December	**145**	**69**	168	69

Included within other assets of the Group is £8,162,000 (2018: £3,828,000) overdue but not impaired, of which £7,253,000 (2018: £3,387,000) is not more than three months overdue at the reporting date. Included within trade receivables of the Parent is £3,688,000 (2018: £1,975,000) overdue but not impaired, of which £3,485,000 (2018: £1,874,000) is not more than three months overdue at the reporting date.

25 Cash and cash equivalents

	2019 Group £000	2019 Parent £000	2018 Group £000	2018 Parent £000
Cash at bank and in hand	**47,155**	**23,781**	67,373	40,033
Short-term bank deposits	**27,620**	**18,467**	42,044	32,742
	74,775	**42,248**	109,417	72,775

Included within short-term bank deposits of the Group and Parent are cash deposits of £1,007,000 (2018: £2,299,000) pledged as collateral by way of cash margins on open derivative contracts to cover derivative liabilities.

Included within Group cash at bank and in hand are cash deposits of £3,821,000 (2018: £4,090,000) pledged as collateral by way of cash calls from reinsurers, and £3,464,000 (2018: £3,206,000) of restricted cash held on an agency basis. Included within Parent cash at bank and in hand are £nil deposits (2018: £241,000) pledged as collateral and £nil (2018: £nil) restricted cash.

Notes to the financial statements

26 Called up share capital

	Issued, allotted and fully paid 2019 £000	2018 £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 2019	**14,940**	**4,131**	**19,071**
Losses on currency translation differences	**(1,368)**	**-**	**(1,368)**
Gains on net investment hedges	**-**	**640**	**640**
Attributable tax	**-**	**(19)**	**(19)**
At 31 December 2019	**13,572**	**4,752**	**18,324**
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
Parent			
At 1 January 2019	**6,605**	**973**	**7,578**
Losses on currency translation differences	**525**	**-**	**525**
Gains on net investment hedges	**-**	**(649)**	**(649)**
Attributable tax	**-**	**110**	**110**
At 31 December 2019	**7,130**	**434**	**7,564**
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

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

	2019 Group £000	2019 Parent £000	2018 Group £000	2018 Parent £000
Gross				
Claims outstanding	**481,669**	**391,268**	457,319	381,631
Unearned premiums	**203,096**	**165,004**	180,766	149,808
Life business provision	**79,212**	**-**	81,964	-
Total gross insurance liabilities	**763,977**	**556,272**	720,049	531,439
Recoverable from reinsurers				
Claims outstanding	**89,982**	**56,174**	78,731	54,357
Unearned premiums	**69,574**	**50,527**	61,615	45,881
Total reinsurers' share of insurance liabilities	**159,556**	**106,701**	140,346	100,238
Net				
Claims outstanding	**391,687**	**335,094**	378,588	327,274
Unearned premiums	**133,522**	**114,477**	119,151	103,927
Life business provision	**79,212**	**-**	81,964	-
Total net insurance liabilities	**604,421**	**449,571**	579,703	431,201
Gross insurance liabilities				
Current	**354,977**	**282,020**	321,792	262,780
Non-current	**409,000**	**274,252**	398,257	268,659
Reinsurance assets				
Current	**115,082**	**78,432**	102,788	74,646
Non-current	**44,474**	**28,269**	37,558	25,592

(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 2019	Discount rate 2018	Mean term of discounted liabilities (years) 2019	Mean term of discounted liabilities (years) 2018
UK and Ireland	**1.3% to 2.2%**	1.8% to 3.0%	**17**	17
Canada	**1.9% to 2.0%**	2.2% to 2.7%	**12**	15
Australia	**1.2%**	2.3%	**4**	5

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 £516,068,000 for the Group (2018: £505,147,000), and £422,531,000 for the Parent (2018: £423,097,000).

The impact of discount rate changes on the outstanding claims liability is presented within net investment return (note 8).

At 31 December 2019, it is estimated that a fall of 1% in the discount rates used would increase the Group's net outstanding claims liabilities by £17,065,000 (2018: £15,432,000). 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:

		2019 Gross £000	2019 Net £000	2018 Gross £000	2018 Net £000
Liability	- UK	**19,700**	**18,500**	19,900	18,800
	- Overseas	**12,100**	**10,200**	10,800	9,100
Property	- UK	**7,900**	**4,800**	7,200	4,200
	- Overseas	**4,900**	**1,900**	4,100	2,100
Motor	- UK	**200**	**200**	200	200

Notes to the financial statements
28 Insurance liabilities and reinsurance assets (continued)

(viii) Claims development tables

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

Estimate of ultimate gross claims

Group	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	2019 £000	Total £000
At end of year	84,476	82,095	100,612	81,725	61,901	46,464	51,738	50,736	48,759	47,945	
One year later	75,550	76,371	88,046	80,027	50,571	43,582	46,073	46,885	40,461		
Two years later	62,239	71,543	78,196	69,860	48,327	40,337	41,041	41,883			
Three years later	66,422	68,587	72,516	66,192	45,495	33,804	38,468				
Four years later	61,330	60,841	67,980	60,174	37,064	29,436					
Five years later	62,074	59,914	62,712	56,912	34,606						
Six years later	61,871	57,950	61,213	54,901							
Seven years later	60,155	57,939	60,560								
Eight years later	60,037	57,790									
Nine years later	59,199										
Current estimate of ultimate claims	59,199	57,790	60,560	54,901	34,606	29,436	38,468	41,883	40,461	47,945	465,249
Cumulative payments to date	(51,938)	(49,973)	(53,237)	(44,655)	(23,826)	(14,559)	(13,481)	(9,152)	(4,973)	(1,478)	(267,272)
Outstanding liability	7,261	7,817	7,323	10,246	10,780	14,877	24,987	32,731	35,488	46,467	197,977
Effect of discounting											(10,192)
Present value											187,785
Discounted liability in respect of earlier years											129,852
Total discounted gross liability (for liability classes) included in insurance liabilities in the statement of financial position											317,637

Parent	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	2019 £000	Total £000
At end of year	69,230	66,864	84,511	71,798	52,350	34,769	37,981	34,210	32,992	33,719	
One year later	60,202	63,770	77,629	60,950	40,153	31,941	32,541	33,353	28,181		
Two years later	50,834	62,587	69,580	54,792	39,015	30,129	29,538	31,463			
Three years later	53,390	60,653	63,068	50,492	37,158	27,287	28,622				
Four years later	50,526	52,985	56,225	43,910	31,530	23,620					
Five years later	51,031	50,355	51,872	42,289	30,024						
Six years later	48,499	49,127	50,791	40,698							
Seven years later	47,523	48,927	50,092								
Eight years later	48,082	49,040									
Nine years later	47,527										
Current estimate of ultimate claims	47,527	49,040	50,092	40,698	30,024	23,620	28,622	31,463	28,181	33,719	362,986
Cumulative payments to date	(41,151)	(43,269)	(45,065)	(32,875)	(21,076)	(11,692)	(9,450)	(6,546)	(3,097)	(764)	(214,985)
Outstanding liability	6,376	5,771	5,027	7,823	8,948	11,928	19,172	24,917	25,084	32,955	148,001
Effect of discounting											(8,126)
Present value											139,875
Discounted liability in respect of earlier years											119,950
Total discounted gross liability (for liability classes) included in insurance liabilities in the statement of financial position											259,825

Notes to the financial statements
28 Insurance liabilities and reinsurance assets (continued)

Estimate of ultimate net claims

Group	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	2019 £000	Total £000
At end of year	73,218	75,302	88,247	76,729	59,633	42,739	47,402	45,920	44,053	44,230	
One year later	64,796	72,336	79,272	66,475	47,690	40,397	41,631	41,706	37,456		
Two years later	57,758	68,057	73,735	60,075	47,428	37,740	37,740	37,797			
Three years later	59,353	66,822	69,837	55,710	41,494	32,297	36,337				
Four years later	55,975	60,314	65,872	51,482	35,164	28,506					
Five years later	57,012	59,521	60,800	49,196	33,233						
Six years later	57,050	57,641	59,338	47,518							
Seven years later	55,778	57,591	59,061								
Eight years later	55,827	57,439									
Nine years later	55,112										
Current estimate of ultimate claims	55,112	57,439	59,061	47,518	33,233	28,506	36,337	37,797	37,456	44,230	436,689
Cumulative payments to date	(47,930)	(49,769)	(51,923)	(37,447)	(22,646)	(14,559)	(13,450)	(9,152)	(4,972)	(1,478)	(253,326)
Outstanding liability	7,182	7,670	7,138	10,071	10,587	13,947	22,887	28,645	32,484	42,752	183,363
Effect of discounting											(10,192)
Present value											173,171
Discounted liability in respect of earlier years											117,843
Total discounted net liability (for liability classes) included in insurance liabilities in the statement of financial position											291,014

Parent	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	2019 £000	Total £000
At end of year	57,135	59,011	74,361	67,690	50,025	33,122	35,882	33,134	31,981	32,688	
One year later	49,060	59,873	69,805	57,538	38,944	31,041	30,906	30,965	27,208		
Two years later	48,250	59,997	65,297	51,828	38,215	29,494	28,199	28,854			
Three years later	51,827	59,352	61,795	47,942	34,393	26,981	27,493				
Four years later	49,171	52,850	55,686	43,568	30,252	23,229					
Five years later	49,598	50,189	51,766	42,126	28,825						
Six years later	47,783	49,029	50,762	40,587							
Seven years later	46,951	48,858	50,079								
Eight years later	47,519	48,977									
Nine years later	46,965										
Current estimate of ultimate claims	46,965	48,977	50,079	40,587	28,825	23,229	27,493	28,854	27,208	32,688	354,905
Cumulative payments to date	(40,597)	(43,212)	(45,061)	(32,771)	(19,897)	(11,692)	(9,418)	(6,546)	(3,095)	(764)	(213,053)
Outstanding liability	6,368	5,765	5,018	7,816	8,928	11,537	18,075	22,308	24,113	31,924	141,852
Effect of discounting											(8,126)
Present value											133,726
Discounted liability in respect of earlier years											109,227
Total discounted net liability (for liability classes) included in insurance liabilities in the statement of financial position											242,953

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:

	2019	2018
UK and overseas government bonds: non-linked	**0.61%**	0.98%
UK and overseas government bonds: index-linked	**-2.18%**	-1.89%
Corporate debt instruments: index-linked	**-1.64%**	-1.38%

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 £2.50 per annum (2018: £2.40 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 £5.7 million (2018: £5.4 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 4.08% per annum (2018: 4.22%).

Tax
It has been assumed that tax legislation and rates applicable at 1 January 2020 will continue to apply. All in-force business is classed as protection business and is expected to be taxed on a profits basis.

(ii) Changes in assumptions
Projected investment returns have been revised in line with the changes in the actual yields of the underlying assets. As a result, liabilities have increased by £2.5 million (2018: £0.3 million).

The assumed future expenses of running the business have been revised based on expenses that are expected to be incurred by the company. The effect on insurance liabilities of the changes to renewal expense assumptions (described above) was a £0.4 million increase (2018: £1.1 million decrease).

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		2019 £000	2018 £000
Deterioration in annuitant mortality	+10%	**1,000**	900
Improvement in annuitant mortality	-10%	**(1,100)**	(1,000)
Increase in fixed interest/cash yields	+1% pa	**500**	200
Decrease in fixed interest/cash yields	-1% pa	**(600)**	(600)
Worsening of base renewal expense level	+10%	**(700)**	(600)
Improvement in base renewal expense level	-10%	**600**	600
Increase in expense inflation	+1% pa	**(900)**	(900)
Decrease in expense inflation	-1% pa	**700**	700

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 2019	**457,319**	**(78,731)**	**378,588**
Cash (paid)/received for claims settled in the year	**(139,221)**	**40,808**	**(98,413)**
Change in liabilities/reinsurance assets			
- arising from current year claims	**189,646**	**(58,688)**	**130,958**
- arising from prior year claims	**(32,165)**	**5,888**	**(26,277)**
- change in discount rate	**10,549**	**(599)**	**9,950**
Exchange differences	**(4,459)**	**1,340**	**(3,119)**
At 31 December 2019	**481,669**	**(89,982)**	**391,687**
Provision for unearned premiums			
At 1 January 2019	**180,766**	**(61,615)**	**119,151**
Increase in the period	**204,691**	**(70,165)**	**134,526**
Release in the period	**(180,862)**	**61,416**	**(119,446)**
Exchange differences	**(1,499)**	**790**	**(709)**
At 31 December 2019	**203,096**	**(69,574)**	**133,522**
Life business provision			
At 1 January 2019	**81,964**	**-**	**81,964**
Effect of claims during the year	**(5,733)**	**-**	**(5,733)**
Changes in assumptions	**364**	**-**	**364**
Change in discount rate	**2,483**	**-**	**2,483**
Other movements	**134**	**-**	**134**
At 31 December 2019	**79,212**	**-**	**79,212**
Total insurance contract liabilities and reinsurance assets	**763,977**	**(159,556)**	**604,421**
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
Total insurance contract liabilities and reinsurance assets	720,049	(140,346)	579,703

Notes to the financial statements

28 Insurance liabilities and reinsurance assets (continued)

Parent	Gross £000	Reinsurance £000	Net £000
Claims outstanding			
At 1 January 2019	**381,631**	**(54,357)**	**327,274**
Cash (paid)/received for claims settled in the year	**(112,589)**	**24,498**	**(88,091)**
Change in liabilities/reinsurance assets			
- arising from current year claims	**140,367**	**(27,217)**	**113,150**
- arising from prior year claims	**(25,030)**	**807**	**(24,223)**
- change in discount rate	**7,862**	**-**	**7,862**
Exchange differences	**(973)**	**95**	**(878)**
At 31 December 2019	**391,268**	**(56,174)**	**335,094**
Provision for unearned premiums			
At 1 January 2019	**149,808**	**(45,881)**	**103,927**
Increase in the period	**165,625**	**(50,631)**	**114,994**
Release in the period	**(150,384)**	**45,926**	**(104,458)**
Exchange differences	**(45)**	**59**	**14**
At 31 December 2019	**165,004**	**(50,527)**	**114,477**
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

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 31 December 2018	3,371	63	1,782	5,216
IFRS 16 transition adjustment*	-	-	503	503
At 1 January 2019	3,371	63	2,285	5,719
Additional provisions	4,778	-	-	4,778
Used during year	(5,512)	(40)	-	(5,552)
Not utilised	(72)	-	-	(72)
Exchange differences	-	-	(6)	(6)
At 31 December 2019	2,565	23	2,279	4,867
Current	2,565	23	1,669	4,257
Non-current	-	-	610	610
Parent				
At 31 December 2018	3,371	-	1,688	5,059
IFRS 16 transition adjustment*	-	-	445	445
At 1 January 2019	3,371	-	2,133	5,504
Additional provisions	4,778	-	-	4,778
Used during year	(5,512)	-	-	(5,512)
Not utilised	(72)	-	-	(72)
Exchange differences	-	-	(3)	(3)
At 31 December 2019	2,565	-	2,130	4,695
Current	2,565	-	1,669	4,234
Non-current	-	-	461	461

*The Group has adopted IFRS 16 from 1 January 2019 as detailed in note1.

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

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

Contingent consideration
The provision for contingent consideration relates to the acquisition of 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 2018	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
Charged/(credited) to profit or loss	**6,500**	**(130)**	**(770)**	**(851)**	**4,749**
Credited to other comprehensive income	**-**	**(1,198)**	**-**	**(110)**	**(1,308)**
Exchange differences	**15**	**-**	**-**	**74**	**89**
At 31 December 2019	**34,081**	**425**	**1,434**	**(2,494)**	**33,446**
Parent					
At 1 January 2018	32,808	1,549	2,994	(187)	37,164
Credited to profit or loss	(5,534)	(523)	(790)	(53)	(6,900)
(Credited)/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
Charged/(credited) to profit or loss	**5,875**	**(130)**	**(770)**	**(318)**	**4,657**
Credited to other comprehensive income	**-**	**(1,198)**	**-**	**(110)**	**(1,308)**
Exchange differences	**-**	**-**	**-**	**9**	**9**
At 31 December 2019	**33,149**	**427**	**1,434**	**(582)**	**34,428**

The equalisation reserve was previously required by law and maintained in compliance with insurance companies' regulations. Transfers to this reserve were deemed to be tax deductible under legislation that applied prior to 1 January 2016 and gave rise to deferred tax. With effect from the implementation date of Solvency II, 1 January 2016, these reserves become taxable over 6 years under the transition rules set out by HM Treasury.

Certain deferred tax assets and liabilities have been offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2019 Group £000	2019 Parent £000	2018 Group £000	2018 Parent £000
Deferred tax liabilities	**35,649**	**34,428**	31,665	31,070
Deferred tax assets	**(2,203)**	**-**	(1,749)	-
	33,446	**34,428**	29,916	31,070
Current	**2,226**	**4,438**	1,641	3,390
Non-current	**31,220**	**29,990**	28,275	27,680

The Group has unused tax losses of £13,361,000 (2018: £15,832,000) arising from life business and capital transactions, which are available for offset against future profits and can be carried forward indefinitely. No deferred tax asset has been recognised in respect of these losses due to the unpredictability of future profit streams.

Notes to the financial statements

31 Other liabilities and deferred income

	2019 Group £000	2019 Parent £000	2018 Group £000	2018 Parent £000
Creditors arising out of direct insurance operations	**2,215**	**1,418**	1,183	416
Creditors arising out of reinsurance operations	**26,652**	**14,567**	23,764	15,351
Derivative liabilities	**-**	**-**	2,306	2,306
Creditors arising from broking activities	**4,258**	**-**	3,992	-
Other creditors	**18,085**	**10,109**	15,816	9,738
Amounts owed to related parties	**4**	**24**	4	54
Accruals	**25,738**	**19,448**	24,854	19,390
	76,952	**45,566**	71,919	47,255
Current	**76,533**	**45,566**	71,560	47,255
Non-current	**419**	**-**	359	-

Derivative liabilities are in respect of equity futures contracts and are detailed in note 23.

Deferred income of the Group and Parent is a current liability in both the current and prior year.

Included within deferred income of the Group is £278,000 (2018: £112,000) classified as contract liabilities in accordance with IFRS 15. Included within deferred income of the Parent is £nil (2018: £nil) classified as contract liabilities in accordance with IFRS 15.

32 Leases

Group as a lessee

The Group has lease contracts for various items of property, motor vehicles and other equipment used in its operations. Leases of property generally have terms of up to 15 years, while motor vehicles and other equipment generally have lease terms between 2 and 6 years. Lease terms are negotiated on an individual basis and contain different terms and conditions, but do not impose any covenants other than security interests. The Group's obligations under its leases are secured by the lessor's title to the leased assets, and leased assets may not be used as security for borrowing purposes.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period.

Group	Land and buildings £000	Motor vehicles £000	Other equipment £000	Total £000
At 31 December 2018	-	-	-	-
Transition to IFRS 16	**9,962**	**1,362**	**297**	**11,621**
At 1 January 2019	**9,962**	**1,362**	**297**	**11,621**
Additions	**2,864**	**128**	**150**	**3,142**
Disposals	**(442)**	**(128)**	**(21)**	**(591)**
Depreciation expense	**(2,336)**	**(323)**	**(120)**	**(2,779)**
Exchange differences	**(87)**	**(1)**	**(1)**	**(89)**
At 31 December 2019	**9,961**	**1,039**	**306**	**11,304**
Parent				
At 31 December 2018	-	-	-	-
Transition to IFRS 16	**6,865**	**1,315**	**220**	**8,400**
At 1 January 2019	**6,865**	**1,315**	**220**	**8,400**
Additions	**2,805**	**128**	**105**	**3,038**
Disposals	**(442)**	**(128)**	**-**	**(570)**
Depreciation expense	**(1,741)**	**(287)**	**(98)**	**(2,126)**
Exchange differences	**(38)**	**-**	**-**	**(38)**
At 31 December 2019	**7,449**	**1,028**	**227**	**8,704**

Notes to the financial statements
32 Leases (continued)

Set out below are the carrying amounts of lease obligations:

	2019 Group £000	2019 Parent £000
Current	2,985	2,460
Non-current	9,938	7,868
	12,923	10,328

In the previous year, the Group and Parent only recognised lease liabilities in relation to leases that were classified as finance leases under IAS 17, *Leases*.

Group profit for the year has been arrived at after charging the following amounts in respect of lease contracts:

	2019 £000
Depreciation expense of right-of-use assets	2,779
Interest expense on lease liabilities	584
	3,363

The Group had total cash outflows for leases, including interest, of £3,371,000 in 2019. The Parent had total cash outflows for leases, including interest, of £2,653,000 in 2019. The future cash outflows relating to leases that have not yet commenced are disclosed in note 33.

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised, as disclosed in note 2.

At the prior period reporting date the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2018 Group £000	2018 Parent £000
Within 1 year	3,430	2,715
Between 1 & 5 years	10,743	8,929
After 5 years	5,432	4,587
	19,605	16,231
Operating lease rentals charged to profit or loss during the year	3,428	2,201
Total future minimum sublease payments expected to be received under non-cancellable subleases	506	506

Notes to the financial statements
32 Leases (continued)

Group as a lessor
Finance leases

The Group has entered into a finance leasing arrangement as a lessor to sublease a commercial office space no longer occupied by the Group. The term of the finance lease is 3 years. The contract does not include an extension or early termination option.

	2019 Group £000	2019 Parent £000
Year 1	134	134
Year 2	134	134
Year 3	111	111
Undiscounted lease payments	379	379
Less: unearned finance income	(13)	(13)
Net investment in the lease	366	366

Net investment in the lease is recognised in other assets as shown in note 24.

Group profit for the year has been arrived at after crediting the following amounts in respect of finance lease contracts:

	2019 £000
Selling profit for finance leases	21
Finance income on the net investment in finance leases	8
	29

The Group did not have lessor finance leasing arrangements in 2018.

Operating leases

The Group has entered into operating leases on its investment property portfolio. These leases have terms of up to 50 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions. The lessee is also required to provide a residual value guarantee on the properties. Rental income on these properties recognised by the Group during the year is disclosed in note 21.

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	2019 Group £000	2019 Parent £000	2018 Group £000	2018 Parent £000
Year 1	8,220	8,220	8,000	8,000
Year 2	7,643	7,643	7,329	7,329
Year 3	6,850	6,850	6,790	6,790
Year 4	6,455	6,455	6,056	6,056
Year 5	6,160	6,160	5,739	5,739
After 5 years	29,065	29,065	32,478	32,478
	64,393	64,393	66,392	66,392

Notes to the financial statements

33 Commitments

At the year end, the Group and Parent had capital commitments of £2,559,000 (2018: £8,712,000) relating to computer software and no capital commitments (2018: £1,207,000) relating to furniture, fittings and equipment.

The Group has a lease contract that has not yet commenced as at 31 December 2019. The lease is expected to commence in 2020 and has a term of 15 years. The expected cash outflow is £1,300,000 per annum.

34 Related undertakings

Ultimate parent company and controlling party
The Company is a wholly-owned subsidiary of Ecclesiastical Insurance Group plc. Its ultimate parent and controlling company is Allchurches Trust Limited. Both companies are incorporated and operate in the United Kingdom and copies of their financial statements are available from the registered office as shown on page 248. 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 2019 is as follows:

Company	Company Registration Number	Share Capital	Holding of shares by Company	Holding of shares by Group	Activity
Subsidiary undertakings					
Incorporated in the United Kingdom					
Ecclesiastical Financial Advisory Services Limited *	2046087	Ordinary	100%	-	Independent financial advisory
Ecclesiastical Life Limited *	0243111	Ordinary	100%	-	Life insurance
EdenTree Investment Management Limited *	2519319	Ordinary	100%	-	Investment management
E.I.O. Trustees Limited * ^	0941199	Ordinary	100%	-	Trustee company
Ecclesiastical Group Healthcare Trustees Limited *	10988127	Ordinary	100%	-	Trustee company
South Essex Insurance Brokers Limited *	6317314	Ordinary	-	100%	Insurance agents and brokers
South Essex Insurance Holdings Limited *	6317313	Ordinary	100%	-	Investment holding company
Incorporated in Australia					
Ansvar Insurance Limited **	007216506	Ordinary	100%	-	Insurance
Ansvar 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

35 Related party transactions

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

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

	Ecclesiastical Insurance Group plc £000	Subsidiaries £000	Other related parties £000
2019			
Group			
Trading, investment and other income, including recharges, and amounts received	**461**	**-**	**1,790**
Trading, investment and other expenditure, including recharges, and amounts paid	**8,590**	**-**	**2,481**
Amounts owed by related parties	**37,900**	**-**	**1,144**
Amounts owed to related parties	**-**	**-**	**57,222**
Parent			
Trading, investment and other income, including recharges, and amounts received	**461**	**15,249**	**529**
Trading, investment and other expenditure, including recharges, and amounts paid	**8,590**	**3,743**	**867**
Amounts owed by related parties	**37,900**	**4,205**	**1,134**
Amounts owed to related parties	**-**	**1,612**	**-**
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

During the year, the Company received premiums, commission and reinsurance recoveries via a related party insurance agency amounting to £116,000 (2018: £187,000) and paid reinsurance protection, commission and claims amounting to £299,000 (2018: £340,000).

Trading, investment and other expenditure, including recharges, and amounts paid in the current year includes loans totalling £8.3m.

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 the Annual Report and Accounts. 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

36 Reconciliation of Alternative Performance Measures

The Group uses alternative performance measures (APM) in addition to the figures which are prepared in accordance with IFRS. The financial measures included in our key performance indicators are set out on page 50: regulatory capital, combined operating ratio (COR), net expense ratio (NER) and net inflows are APM. These measures are commonly used in the industries the Group operates in and are considered to provide useful information and enhance the understanding of the results.

Users of the accounts should be aware that similarly titled APM reported by other companies may be calculated differently. For that reason, the comparability of APM across companies might be limited.

In line with the European Securities and Markets Authority guidelines, we provide a reconciliation of the COR and NER to its most directly reconcilable line item in the financial statements. Regulatory capital and net inflows to funds managed by Ecclesiastical Insurance Office plc's subsidiary, EdenTree Investment Management Limited, do not have an IFRS equivalent. Net inflows are the difference between the funds invested (gross inflows) less funds withdrawn (redemptions) during the year by third parties in a range of funds EdenTree Investment Management Limited offers. Regulatory capital is covered in more detail in note 4(i).

Group		2019							
		Insurance		Inv'mnt return	Inv'mnt mngt	Broking and Advisory		Corporate costs	Total
		General £000	Life £000	£000	£000	£000		£000	£000
Revenue									
Gross written premiums		393,965	(13)	-	-	-		-	393,952
Outward reinsurance premiums		(152,886)	-	-	-	-		-	(152,886)
Net change in provision for unearned premiums		(15,080)	-	-	-	-		-	(15,080)
Net earned premiums	[1]	225,999	(13)	-	-	-		-	225,986
Fee and commission income	[2]	49,368	-	-	12,795	9,077		-	71,240
Other operating income		544	-	-	-	-		-	544
Net investment return		-	989	72,596	19	834		-	74,438
Total revenue		275,911	976	72,596	12,814	9,911		-	372,208
Expenses									
Claims and change in insurance liabilities		(157,481)	(327)	-	-	-		-	(157,808)
Reinsurance recoveries		52,800	-	-	-	-		-	52,800
Fees, commissions and other acquisition costs	[3]	(72,383)	(14)	-	(819)	476		-	(72,740)
Other operating and administrative expenses	[4]	(78,829)	(300)	(3,057)	(12,305)	(8,236)	[5]	(17,850)	(120,577)
Total operating expenses		(255,893)	(641)	(3,057)	(13,124)	(7,760)		(17,850)	(298,325)
Operating profit	[6]	20,018	335	69,539	(310)	2,151		(17,850)	73,883
Finance costs		(531)	-	-	-	(89)		-	(620)
Profit before tax		19,487	335	69,539	(310)	2,062		(17,850)	73,263
Underwriting profit	[6]	20,018							
Combined operating ratio		91.1%							
Net expenses (= [2] + [3] + [4] + [5])	[7]	(119,694)							
Net expense ratio		53%							

The underwriting profit of the Group is defined as the operating profit of the general insurance business.

The Group uses the industry standard net COR as a measure of underwriting efficiency. The COR expresses the total of net claims costs, commission and underwriting expenses as a percentage of net earned premiums. It is calculated as ([1] - [6]) / [1]).

The NER expresses total underwriting and corporate expenses as a proportion of net earned premiums. It is calculated as - [7] / [1].

Notes to the financial statements

36 Reconciliation of Alternative Performance Measures (continued)

Group		2018							
		Insurance		Inv'mnt return	Inv'mnt mngt	Broking and Advisory		Corporate costs	Total
		General £000	Life £000	£000	£000	£000		£000	£000
Revenue									
Gross written premiums		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%							

37 Events after the balance sheet date

In early 2020, the existence of a new coronavirus, COVID-19, was confirmed. This virus has since spread across the globe and is now characterised by the World Health Organization as a pandemic. COVID-19 has caused disruption to businesses and economic activity which has been reflected in recent fluctuations in UK and global stock markets. The Group considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event. The Group has plans in place to support continued operation of business activity and has capital resources that can withstand significant temporary market disruption. The Group does not consider there to be any significant exposure from insurance policies underwritten by the Group. Given the inherent uncertainties, it is not practicable at this time to determine the impact of COVID-19 on the Group or to provide a quantitative estimate of the impact.

Section Five

Other Information

Directors, executive management and company information

Directors	* R. D. C. Henderson FCA *Chairman* * F. X. Boisseau MSc D. P. Cockrem, MA, FCA *Group Chief Financial Officer* M. C. J. Hews BSc (Hons), FIA *Group Chief Executive* * N. P. Maidment MA, FCII * A. J. McIntyre MA, ACA, FRCO * C. J. G. Moulder MA, FCA *Senior Independent Director* * C. H. Taylor BSc (Hons) Banking and International Finance S. J. Whyte MC Inst. M, ACII *Deputy Group Chief Executive* * A. Winther BA * The Very Reverend C. L. Wilson
Group Management Board	D. P. Cockrem, MA, FCA *Group Chief Financial Officer* M. C. J. Hews BSc (Hons), FIA *Group Chief Executive* M. Bennett BSc, FIA D. R. Moore BA (Hons), MBA C. M. Taplin BSc (Hons), MSc, MBA S. J. Whyte MC Inst. M, ACII *Deputy Group Chief Executive*
Company Secretary	Mrs R. J. Hall FCG
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	Charles Russell Speechlys LLP London DAC Beachcrofts LLP Leeds, London and Bristol Harrison Clark Rickerbys LLP Cheltenham Matheson Dublin William Fry Dublin Pinsent Masons LLP Birmingham and London

* 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:	S. Cox ACII Chartered Insurer Ansvar House 31 St. Leonards Road Eastbourne, East Sussex BN21 3UR
	Tel:	0345 60 20 999
Canada Branch	Deputy Group Chief Executive, Ecclesiastical Insurance and General Manager and Chief Agent: 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, 18th June 2020 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 2019 and the report of the auditors thereon.
2. To re-elect Mr F. X. Boisseau as a director.*
3. To re-elect Mr R. D. C. Henderson as a director.*
4. To re-elect Mr M. C. J. Hews as a director.*
5. To re-elect Mr A. J. McIntyre as a director.*
6. To re-elect Mr C. J. G. Moulder as a director.*
7. To re-elect Mrs C. H. Taylor as a director.*
8. To re-elect Mrs S. J. Whyte as a director.*
9. To re-elect Mr A. Winther as a director.*
10. To elect Mrs D. Cockrem as a director.*
11. To elect Mr N. Maidment as a director.*
12. To elect Sir S. Lamport as a director.*
13. To consider the declaration of a dividend.
14. To appoint PricewaterhouseCoopers LLP as auditors and authorise the directors to fix their remuneration.

By order of the Board

Mrs R. J. Hall, Secretary
17 March 2020

* Brief biographies of the directors seeking re-election are shown on pages 96 to 98 of the 2019 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

Notes

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Other Information

Annual Report & Accounts 2019
Ecclesiastical Insurance Office plc
Beaufort House
Brunswick Road
Gloucester
GL1 1JZ

www.ecclesiastical.com

Ecclesiastical Insurance Office plc (EIO) Reg. No. 24869. Registered in England at Beaufort House, Brunswick Road, Gloucester, GL11JZ, United Kingdom.
EIO is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.
Firm Reference Number 113848.