Company Number 1718196

ECCLESIASTICAL

ECCLESIASTICAL INSURANCE GROUP plc

2017 ANNUAL REPORT

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DIRECTORS AND COMPANY INFORMATION

Directors	* John Hylands *Chairman* Ian Campbell *Group Chief Financial Officer* * Tim Carroll * David Henderson Mark Hews *Group Chief Executive* * Anthony Latham * Andrew McIntyre * Chris Moulder * Caroline Taylor S. Jacinta Whyte *Deputy Group Chief Executive* * The Very Reverend Christine Wilson *Senior Independent Director* * Denise Wilson OBE
Company Secretary	Rachael Hall
Registered and Head Office	Beaufort House, Brunswick Road, Gloucester GL1 1JZ Tel: 0845 777 3322
Company Registration Number	1718196
Investment Management Office	24 Monument Street, London EC3R 8AJ Tel: 0800 358 3010
Auditor	Deloitte LLP, London

* *Non-executive directors*

STRATEGIC REPORT

The directors present the Strategic Report of the Company for the year ended 31 December 2017.

Group Chief Executive's Review

Doing business differently

In the world of financial services, Ecclesiastical treads a different path. For us, charitable giving is not something we do as part of our corporate responsibility programme, or something we do to meet our reporting obligations. Instead, it's the very reason we exist.

This is because, unlike others in our sector, our sole purpose is to contribute to the greater good of society. A significant proportion of our profits are channelled towards funding good causes, through independent grants from our charitable owner or our own considerable donations to the communities we serve.

This very different purpose means we are able to do business in a very different way.

Yes, we work hard to be successful, so our growing profits can be used to help even more people who find themselves in need.

But we also strive to be the most trusted and caring business in our chosen markets. A business that supports its customers not just by giving them first-class service and products, but by prioritising their needs should the worst happen.

Our approach is shaped by our charitable purpose. We are not driven by the need to grow at any cost in order to satisfy short-term shareholder or owner demands. Instead, we are driven by building a sustainable, ethical, values-driven business over the longer-term, providing 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 for 130 years, we have been trusted to protect so much of the heritage and history in the countries where we operate, insuring as we do palaces and castles, World Heritage sites, museums, treasure houses, independent schools and cherished faith buildings – including the majority of the UK's Grade I listed buildings.

Society demands more

Today's consumers and employees are demanding higher standards and increased responsibility from businesses, led by millennials – 'the most socially responsible generation that ever existed'[1].

This trend is evidenced by international surveys showing that a third of consumers are now choosing to buy from brands they believe are doing social or environmental good[2] and 73% of millennials are prepared to pay more for products from such brands[3]. Furthermore, 67% of global consumers want to work for companies that are giving back to society[4].

As businesses debate how best to secure the trust of such consumers, I believe it has never been more important for companies such as ours to demonstrate that it is possible to be commercially successful while fulfilling a charitable purpose, so that others may consider doing business differently.

Our profits change lives and benefit society

I am delighted to report that in 2017 we again delivered strongly against our charitable purpose, with a pre-tax profit of £84.5m compared with £61.8m in 2016 and GWP growth of 15% to £386m.

These excellent results enabled us to make donations of £27.5m during the year, meaning that we have now given £45.2m of the £100m target we set ourselves in April 2016. In doing so, we have supported around 2,750 charities worldwide, helping to improve the lives of many thousands of people. Thanks to the considerable sums we give every year, we are now ranked as the UK's fourth largest UK corporate donor by value, alongside major international companies[5].

However, looking at our charitable donations as a percentage of our profit we stand alone. The rankings show that we give over 30% of our profits to charity[5].

Of course this is about so much more than financial metrics; the thousands of good causes we have supported since we set our new target are wide ranging and touch lives in moving ways. They range from charities supporting children who have been bereaved of their parents, through to hospices that provide so much care to loved ones in their final days.

[1] Who Cares Wins: Why Good Business is Better Business, David Jones, 2011
[2] Europanel/Flamingo/Unilever, January 2017
[3] The Sustainability Imperative, Nielsen Report 2015
[4] Global Shopper survey, Nielsen Q1 2015
[5] 2016-17 UK Guide to Company Giving

They range from charities supporting vulnerable people like the homeless, or those suffering from addiction problems with alcohol or drugs, through to parish churches setting themselves up as a community hub in deprived areas. They include charities that support people whose lives have been destroyed by natural catastrophes all over the world. Reviewing the long list of charities supported and the thousands of thank you letters received is a humbling and uplifting experience.

Clearly, our charitable purpose is a powerful force for good.

It is also a powerful motivator. The fact that our profits change lives makes our people look at their work in a different way. It motivates them to be even better at what they do and to go above and beyond for our customers. And because we give them the opportunity to contribute directly to the causes closest to their hearts, it motivates them to do good in our communities. With our employees committed to the company's charitable goals[6], it is no surprise that our employees' engagement reached a record high in 2017[6].

A trusted business

Lack of trust in institutions and businesses has become a pervading social theme and every year, the leading global trust survey shows that financial services remains the least trusted industry in the world[7].

Yet every year, independent surveys show that our own customers and business partners continue to put their trust in Ecclesiastical – a remarkable achievement in today's climate of mistrust.

For the 11th consecutive year, we were recognised by UK brokers as the best insurer in the charity, heritage and education sectors, as well as in the faith sector where we measured broker sentiment for the first time.

Our UK customer satisfaction levels remained exceptionally high at 97-99% across all sectors, while 98% of customers were satisfied with how we handled their claim. I am proud to report that we again received many external accolades for the way we do business. For the second year running, we were named Insurance Company of the Year by the UK's Better Society Awards and ranked by UK customers as the Fairer Finance most trusted home insurance provider for the fourth consecutive time. In the UK our chartered status was renewed, making us one of only five composite UK insurers to hold this prestigious status.

EdenTree, our investment management business, was named Moneyfacts Best Ethical Investment Provider for an extraordinary ninth year in a row, while our Canadian insurance business was recognised as a Top Employer for Young People for the fifth consecutive year.

One of the most inspiring parts of my job is receiving written and verbal thanks for the outstanding work and compassion shown by our exceptional people. This year it gladdened us all to be described as 'fantabulous' for the very first time, by the Archbishop of York John Sentamu for the restoration of a rural church.

We do not take the trust placed in us for granted and work hard to remain 'fantabulous' in the eyes of our customers. In striving to do this, we will continue to put their needs first as befits a values-driven business.

Progress in detail

2017 has been a very successful year for the group and we report a pre-tax profit of £84.5m (2016: £61.8m), our best financial result in over a decade.

We have delivered consistently strong financial results over the last few years together with successful delivery against strategic objectives; 2017 has continued that trend and our financial results were also supported by favourable investment market performance during the year. We continue to make significant investment across the Group to upgrade and build our capabilities to deliver even greater value and benefits to customers. This new programme of business change will support us in achieving our business strategy and ambitious charitable aim but, in the short term, will continue to impact our expense ratio. The success of these wide-reaching initiatives, however, will ensure our profitable growth can be maintained in the longer term.

General insurance

Our underwriting performance[8] for the year was a profit of £27.1m (2016: £20.1m profit), resulting in a Group COR[8] of 86.9% (2016: 89.8%). Another year of largely benign weather in the UK and Ireland and more favourable development of prior year claims on the Group's liability business has meant that, despite higher than average claims experience in our Canadian business, we have delivered a fourth consecutive year of improvement in underwriting profits.

[6] Ecclesiastical employee survey, November 2017

[7] Edelman Trust Barometer 2017

[8] Alternative performance measure, refer to note 35 to the financial statements for further explanation.

United Kingdom and Ireland
In the UK and Ireland underwriting profits increased to £32.7m (2016: £25.0m profit) giving a COR of 77.1% (2016: 82.5%). This is an exceptional underwriting result which has been driven by a number of favourable factors on both the property and liability accounts all occurring in the same year. It is not a level of underwriting performance we expect to be sustained into the future.

The underwriting result on the property account was ahead of last year. The weather in the UK and Ireland has again been very settled across most of the year, with Storm Doris and ex-tropical storm Ophelia being the only notable exceptions. The latter mainly affected geographical areas where we have limited exposure and, with the number of fire related losses also down on both 2015 and 2016, we have seen an increase in profits. The property result also benefited from a distribution from our pooled terrorism reinsurance arrangements reflecting a surplus in the pool.

The underwriting result from the liability account was very favourable, which was consistent with the prior year. Current year claims performance was again better than expected, and we have also had the benefit of reserve releases as historical claims have been settled at amounts that were less than anticipated. The run-off of liability claims in respect of the unprofitable business we exited in 2012 and 2013 is now well progressed and we don't expect to see prior year releases continuing at the levels seen in the last two years.

We expect the UK and Ireland segment to continue to deliver underwriting profits in the future, but consider it very unlikely that claims will continue to be so low on an ongoing basis.

In 2017, GWP has grown by 5% to £231m, (2016: £220m). We have seen high retention levels across our UK and Ireland business which shows the trust our customers have in us to deliver both value and exceptional service. One of our largest markets, Real Estate, saw GWP growth of 8% as we continue to attract prestigious new customers. Our Art & Private Client business grew by more than 50% in 2017, with our recent investment in deepening our expertise, innovation and product development resonating with the market. Commercial insurance business in the UK and Ireland remains highly competitive and our growth of 9%, in that context, shows we are able to compete and succeed in the tough environment. GWP in respect of household business fell by 13%, reflecting a continued focus on risk selection in what is a highly competitive market.

We expect the soft market conditions to continue, with excess capacity adding to the intense competition in the UK market. Our strategy over the medium-term is unchanged and remains to leverage our deep underwriting expertise, focusing on adding good-quality business to deliver measured GWP growth, as we look to embed a step change improvement in our specialist capabilities through the use of technology and innovation. In doing so, we will continue to seek profit over growth, maintaining our strong underwriting discipline in accordance with our groupwide underwriting philosophy.

Ansvar Australia
Our Australian business reported an underwriting profit of AUD$1.2m giving a COR of 96.9% (2016: AUD$2.2m loss, COR of 106.7%). The 2017 performance was driven by the growing liability account which benefited from prior year releases, partly offset by losses on property business. The property result reflected the impact of Tropical Cyclone Debbie and the New South Wales hail storm, but losses on those events were in part offset by releases on catastrophe event claims from prior years. The reinsurance arrangements in place also helped reduce the impact of the property loss at the net level.

GWP grew by 26% in local currency to AUD$96.3m (2016: AUD$76.4m). Retention rates remained very strong, and new business was 73% ahead of the prior year with growth initiatives implemented in both 2016 and 2017 delivering as expected.

Canada
Our Canadian business continued its track record of delivering growth, reporting a 6% increase in the branch's contribution towards group GWP at CAD$86.9m (2016: CAD$81.8m).

The territory reported an overall underwriting loss of CAD$12.1m giving a COR of 118.5% (2016: CAD$6.2m loss, COR of 110.3%). Canada had another difficult year following on from the 2016 Fort McMurray wildfire in Alberta, with property business being impacted by a number of weather events and fire losses. This was compounded by a loss on liability business as reserves were strengthened during the year to take account of adverse claims development.

Other insurance operations
General insurance profits were improved slightly by development of prior accident years from our businesses in run-off, resulting in an overall profit of £0.9m (2016: £0.3m loss).

Investments
Investment returns for the year were £73.7m (2016: £55.4m) with UK stock markets concluding a strong year with solid gains in the fourth quarter, ending the year at another record high. Over the course of 2017 global equity markets trended higher on the back of continued optimism in the outlook for the global economy. The return to volatility at the beginning of 2018 is a timely reminder that the stable market returns, seen over the last two years, cannot be taken for granted.

The small and mid-cap bias in our UK equity portfolio had a positive impact in 2017. The FTSE small-cap and FTSE 250 mid-cap indices delivered +18.2% and +17.8% respectively, significantly higher than the FTSE 100 large-cap return of +11.9%. Our direct property investments also performed well in the year.

The shorter duration of our bond investments resulted in underperformance relative to the broader FTSE Allstock index, and reflects the Group's strategy of favouring capital protection over marginal increases in returns. The fund's fixed interest portfolio benefited from a healthy allocation to corporate bonds, as well as solid performance from long-dated preference shares and permanent interest bearing shares, whilst investments in government bonds were broadly flat on the year.

A slight downward movement in yields reduced the discount rate applied in calculating the present value of certain long-tail general business insurance liabilities. The change in discount rate on those liabilities resulted in a £1.4m loss being recognised within investment returns (2016: £7.7m loss).

The investment result includes a £3.2m return (2016: £12.2m) on assets backing our long-term insurance business, which is discussed later in this report, partly offset by a £0.4m loss (2016: £10.9m loss) from the impact of the change in discount rate on the long term business liability. The net return of £2.8m (2016: £1.3m) was offset by a £2.4m increase (2016: £2.0m increase) in long-term insurance claims liabilities reflecting the close match of assets and liabilities as we would expect.

Investment management
The Group's investment management business, EdenTree, saw a rise in pre-tax profits to £1.7m (2016: £1.6m) and has made good progress on its strategy to develop its presence in the Charity and Institutional markets. Net inflows to funds of £121m (2016: £28m net outflow), were the second best in EdenTree's history, with institutional business boosted by a mandate win from a European global bank. Total funds under management grew 8.8% to £2.7bn (2016: £2.5bn), further supported by global equity markets which concluded a strong year with solid gains in the fourth quarter. The business has continued to develop its capabilities throughout 2017, investing in technology and systems, to meet the needs of its customers and support the new MiFID II reporting requirements which become effective from 2018.

Long-term insurance
The life business insurance result for 2017 was a profit of £0.4m (2016: £0.7m loss). Ecclesiastical Life Limited (ELL) is closed to new business and the expected favourable run-off of the business during the year was partly offset by the long-term impact of increased audit costs. The increase has resulted from reclassification as a public interest entity (PIE), under the European Union audit legislation, which became effective during the year.

Broking and advisory
The broking and advisory business comprises our insurance broker businesses South Essex Insurance Brokers Limited (SEIB) and Lycetts, our small financial advisory business Ecclesiastical Financial Advisory Services Limited (EFAS), and our prepaid funeral plan distribution and administration business Ecclesiastical Planning Services Limited (EPSL).

In 2017, SEIB enjoyed moderate growth, reporting a rise in profit before tax to £2.5m (2016: £2.4m). Lycetts' profit before tax fell to £1.6m in 2017 (2016: £2.6m) due to continued investment in IT infrastructure and the development of staff. The investment in strategic initiatives is expected to deliver long-term returns.

EPSL reported a profit before tax of £0.3m following on from a breakeven result in 2016. This result was in part due to the acquisition of the assets of Funeral Planning Services Limited in February 2017. EFAS reported a small loss of £0.2m in the year (2016: £0.3m loss).

Overall, our broking and advisory business delivered an increased pre-tax profit of £3.3m (2016: £0.7m profit) following an impairment of Group level goodwill relating to Lycetts Holdings Limited during the prior year.

Looking forward to 2020
We look forward to 2020 with optimism and confidence, having achieved so much in the last four years.

Our consistently strong financial performance is enabling us to invest significantly in the future of our business. In 2016, having reached our goal of giving £50m to good causes over three years, we launched the second phase of our change programme to support a new target of giving £100m by 2020.

This programme is designed to position us for further profitable growth in our existing markets, both organic and inorganic, and to develop new market segments which capitalise on our existing specialisms and knowledge. I am pleased to report that we have made considerable progress, with over 90% of the programme's 2017 deliverables attained and many others in train.

We are also strengthening technology and systems across the Group. Having upgraded our IT platforms in Canada, streamlined EdenTree's front-end operations and embarked on a project to integrate the systems of our broker businesses, we are now investing in a new core operating system for our UK and Ireland general insurance business. This will improve processes for front-line staff, provide a platform for business growth and better serve our customers and partners.

The changes effected in our Group have been made by exceptional, reshaped teams in our businesses worldwide. We are committed to ongoing investment in developing their specialist knowledge and expertise, so we can continue to anticipate and meet our customers' changing needs.

In 2018, the UK's Independent Inquiry into Child Sexual Abuse (IICSA) will continue to scrutinise institutions in England and Wales. We will provide information and expertise as required by IICSA and will refresh our industry-leading guiding principles on handling abuse claims, principles that have been received so positively by a number of audiences, including lawyers representing abuse survivors. We encourage other insurers to follow suit in the interests of the abuse survivors.

We will maintain our prudent reserving strategy for potential claims of physical and sexual abuse against our policyholders.

Our financial strength, robust reinsurance programme and hedged investment portfolio see us not only well positioned to withstand the uncertainty of insurance and investment markets, but also to capitalise on the opportunities that such events may present.

We expect the insurance market to remain extremely competitive in most of our sectors. However, our consistent results demonstrate that we are able to overcome such challenges successfully, thanks to our specialist focus, exceptional service and trusted status.

Working together in a movement for good

This is our 130th year and over the past three decades the amount we have given to charity exceeds £220m. Quite something for a small financial services group of around 1,200 people.

For this, I say a heartfelt thank you.

Thank you to our customers and our business partners for trusting us to protect the places and things that are irreplaceable to those who own and care for them. Thank you to our employees, for working so exceptionally hard every day to do the best for our customers.

And thank you to people across all those groups who have volunteered, raised money and nominated charities for us to support on their behalf.

We are, together, demonstrating that the way Ecclesiastical does business is a powerful movement for good – a 'beacon of light' that I hope others will follow. In 2018 we wish to build on this success and increase our momentum. We are clear in our vision and sure in our purpose. We have record financial strength, an ambitious group-wide transformation programme well on track, and we have a high-performing, aligned team, with strong ethics and values running through their bloodstream working hard to make a difference.

On behalf of so many beneficiaries and customers worldwide, we thank all our supporters. Whether we realise it in the cut and thrust of our day-to-day lives or not, there is no doubt that we are working together in a movement for good, touching and transforming lives in our villages, in our towns, in our communities, in this country and abroad. Because that is what we exist to do.

Principal risks and uncertainties

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

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

By order of the Board

Mark Hews
Group Chief Executive, Ecclesiastical Insurance Group plc
23 April 2018

DIRECTORS' REPORT

Principal activity
The principal activity of the Company is that of an investment holding company. Its principal subsidiary is Ecclesiastical Insurance Office plc (EIO). That company heads a group which operates principally as a provider of general insurance in addition to offering a range of financial services, with offices in the UK and Ireland, Canada and Australia. A list of the main subsidiary undertakings is given in note 33 on page 71.

Ownership
At 18 April 2018 the entire issued equity capital of the Company was owned by Allchurches Trust Limited.

Board of directors
The directors of the Company during the year and up to the date of this report are stated on page 2. Andrew McIntyre and Chris Moulder were appointed as non-executive directors of the Company on 4 April 2017 and 27 September 2017 respectively. Edward Creasy resigned as a director and Chairman on 31 March 2017 and John Hylands was appointed as Chairman on the same date. The Very Revd Christine Wilson was appointed as Senior Independent Director on 1 November 2017, succeeding Mr Hylands.

With the exception of Anthony Latham 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. Chris Moulder will be recommended for election at the forthcoming AGM.

The Group has made qualifying third party indemnity provisions for the benefit of its directors, which were in place throughout the year and remain in force at the date of this report.

Neither the directors nor their connected persons held any beneficial interest in any Ordinary shares of group companies during the year ended 31 December 2017. There has been no change in these interests since the end of the financial year to the date of this report.

The following directors of the Company, and their connected persons, held Preference shares in the capital of EIO plc at 31 December 2017:

Director	Nature of interest	Number of EIO Non-Cumulative Irredeemable Preference Shares held	
		31.12.2017	**31.12.2016**
Mark Hews	Connected person	75,342	75,342

There has been no change to Mr Hews' interests since the end of the financial year to the date of this report.

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

Future developments
The future developments of the Group are detailed in the Strategic Report on page 6.

Dividends
The directors do not recommend the payment of a dividend for the year ended 31 December 2017 (2016: £nil).

Charitable and political donations
Charitable donations paid and provided for by the Group in the year amounted to £27.5 million (2016: £24.7 million).

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

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

Remuneration policy
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. 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 long-term incentive plan. Such variable remuneration is conditional on the achievement of performance targets that are linked to the successful delivery of the Group Strategy. The greater weighting towards variable remuneration thereby aligns the interests of executive directors with those of shareholders.

Pension arrangements

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

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

Internal controls

The Board is ultimately responsible for the systems of risk management and internal control maintained by the Group and reviews their appropriateness and effectiveness annually. The Board views the management of risk as a key accountability and is the responsibility of all management and believes that, for the period in question, the Group has maintained an adequate and effective system of risk management and internal control.

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

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

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

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

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

Internal control over financial reporting

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

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

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

Going concern

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

The Group has considerable financial resources: financial investments of £866.6m, 93% of which are liquid (2016: financial investments of £872.3m, 94% liquid); cash and cash equivalents of £118.3m and no bank borrowings (2016: cash and cash equivalents of £112.7m and no bank borrowings). Liquid financial investments consist of listed equities and open-ended investment companies, government bonds and listed debt. The Group also has a strong risk management framework and solvency position, and has proved resilient to stress testing. As a consequence, the directors have a reasonable expectation that the Group is well placed to manage its business risks successfully and continue in operational existence for at least twelve months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Auditor and the disclosure of information to auditor

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

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

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

Non-audit work

The Group Audit 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.

Directors' responsibilities

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

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

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

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

DIRECTORS' REPORT

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

We confirm that to the best of our knowledge:

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

By order of the Board

Mark Hews
Group Chief Executive, Ecclesiastical Insurance Group plc
23 April 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ECCLESIASTICAL INSURANCE GROUP PLC

Report on the audit of the financial statements

Opinion
In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 December 2017 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.

We have audited the financial statements of Ecclesiastical Insurance Group plc (the 'parent company') and its subsidiaries (together the 'group') which comprise:

- the Consolidated Statement of Profit or Loss;
- the Consolidated and Parent Statement of Comprehensive Income;
- the Consolidated and Parent Statements of Changes in Equity;
- the Consolidated and Parent Statement of Financial Position;
- the Consolidated and Parent Statement of Cash Flows; and
- the notes to the Financial Statements 1 to 35.

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 to 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 company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ECCLESIASTICAL INSURANCE GROUP PLC

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 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 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.

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

Use of our 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.

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 company and its 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
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Paul Stephenson BA FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
23 April 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2017

	Notes	2017 £000	2016 £000
Revenue			
Gross written premiums	5, 6	386,105	336,844
Outward reinsurance premiums	6	(172,575)	(140,747)
Net change in provision for unearned premiums	6	(6,318)	1,103
Net earned premiums		207,212	197,200
Fee and commission income		84,294	74,801
Other operating income		1,935	843
Net investment return	7	73,696	55,408
Total revenue		367,137	328,252
Expenses			
Claims and change in insurance liabilities	8	(165,479)	(168,221)
Reinsurance recoveries	8	77,762	80,002
Fees, commissions and other acquisition costs	9	(65,621)	(61,208)
Other operating and administrative expenses		(129,197)	(116,877)
Total operating expenses		(282,535)	(266,304)
Operating profit		84,602	61,948
Finance costs		(96)	(101)
Profit before tax	5	84,506	61,847
Tax expense	13	(14,550)	(9,299)
Profit for the year	10	69,956	52,548
Attributable to:			
Equity holders of the Parent		61,003	43,444
Non-controlling interests		8,953	9,104
		69,956	52,548

CONSOLIDATED AND PARENT STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2017

	Notes	2017 Group £000	2017 Parent £000	2016 Group £000	2016 Parent £000
Profit for the year		69,956	2,702	52,548	3,046
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Gains/(losses) on retirement benefit plans	18	44,998	-	(34,996)	-
Attributable tax		(7,622)	-	5,849	-
		37,376	-	(29,147)	-
Items that may be reclassified subsequently to profit or loss:					
(Losses)/gains on currency translation differences	26	(1,642)	-	13,482	-
Gains on net investment hedges	26	855	-	2,067	-
Attributable tax		(73)	-	(223)	-
		(860)	-	15,326	-
Net other comprehensive income		36,516	-	(13,821)	-
Total comprehensive income		106,472	2,702	38,727	3,046
Attributable to:					
Equity holders of the Parent		97,519	2,702	29,623	3,046
Non-controlling interests		8,953	-	9,104	-
		106,472	2,702	38,727	3,046

CONSOLIDATED AND PARENT STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

	Attributable to equity holders of the Parent							
Group	Share capital £000	Equalisation reserve £000	Revaluation reserve £000	Translation and hedging reserve £000	Retained earnings £000	Total £000	Non-controlling interests £000	Total equity £000
At 1 January 2017	20,000	-	576	21,508	389,289	431,373	104,850	536,223
Profit for the year	-	-	-	-	*61,003*	*61,003*	*8,953*	*69,956*
Other net income/(expense)	-	-	*6*	*(860)*	*37,370*	*36,516*	-	*36,516*
Total comprehensive income/(expense)	-	-	6	(860)	98,373	97,519	8,953	106,472
Acquisition of non-controlling interest	-	-	-	-	(428)	(428)	(1,050)	(1,478)
Dividends	-	-	-	-	-	-	(8,953)	(8,953)
Gross charitable grant	-	-	-	-	(26,000)	(26,000)	-	(26,000)
Tax relief on charitable grant	-	-	-	-	5,005	5,005	-	5,005
Reserve transfers	-	-	(29)	-	29	-	-	-
At 31 December 2017	20,000	-	553	20,648	466,268	507,469	103,800	611,269
At 1 January 2016	20,000	24,957	571	6,182	369,872	421,582	106,450	528,032
Profit for the year	-	-	-	-	*43,444*	*43,444*	*9,104*	*52,548*
Other net income/(expense)	-	-	*5*	*15,326*	*(29,152)*	*(13,821)*	-	*(13,821)*
Total comprehensive income	-	-	5	15,326	14,292	29,623	9,104	38,727
Acquisition of non-controlling interest	-	-	-	-	(632)	(632)	(1,600)	(2,232)
Dividends	-	-	-	-	-	-	(9,104)	(9,104)
Gross charitable grant	-	-	-	-	(24,000)	(24,000)	-	(24,000)
Tax relief on charitable grant	-	-	-	-	4,800	4,800	-	4,800
Reserve transfers	-	(24,957)	-	-	24,957	-	-	-
At 31 December 2016	20,000	-	576	21,508	389,289	431,373	104,850	536,223
Parent								
At 1 January 2017	20,000	-	-	-	17,403	37,403		
Total comprehensive income attributable to equity holders	-	-	-	-	2,702	2,702		
At 31 December 2017	20,000	-	-	-	20,105	40,105		
At 1 January 2016	20,000	-	-	-	14,357	34,357		
Total comprehensive income attributable to equity holders	-	-	-	-	3,046	3,046		
At 31 December 2016	20,000	-	-	-	17,403	37,403		

The equalisation reserve was previously required by law and maintained in compliance with the insurance companies' regulations and INSPRU prudential sourcebook for insurers. Solvency II replaces these rules with effect from 1 January 2016 and does not require an equalisation reserve to be held. The reserve was transferred to retained earnings on 1 January 2016.

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

Retained earnings of the Group includes a specific non-distributable reserve of a subsidiary amounting to £4,200,000 (2016: £4,200,000).

CONSOLIDATED AND PARENT STATEMENT OF FINANCIAL POSITION

at 31 December 2017

	Notes	2017 Group £000	2017 Parent £000	2016 Group £000	2016 Parent £000
Assets					
Goodwill and other intangible assets	16	59,523	-	55,579	-
Deferred acquisition costs	17	31,267	-	30,705	-
Deferred tax assets	30	2,544	-	3,075	-
Pension assets	18	20,036	-	144	-
Property, plant and equipment	19	9,682	-	9,606	-
Investment property	20	152,238	-	125,284	-
Financial investments	21	866,578	59,710	872,295	57,118
Reinsurers' share of contract liabilities	28	287,273	-	256,384	-
Current tax recoverable		147	58	1,400	-
Other assets	23	127,435	4,255	123,125	870
Cash and cash equivalents	24	118,273	6,319	112,717	3,357
Total assets		1,674,996	70,342	1,590,314	61,345
Equity					
Share capital	25	20,000	20,000	20,000	20,000
Retained earnings and other reserves		487,469	20,105	411,373	17,403
Equity attributable to equity holders of the Parent		507,469	40,105	431,373	37,403
Non-controlling interests	27	103,800	-	104,850	-
Total equity		611,269	40,105	536,223	37,403
Liabilities					
Insurance contract liabilities	28	897,313	-	883,504	-
Borrowings		1,611	29,458	1,417	23,458
Provisions for other liabilities	29	7,520	-	6,226	-
Pension liabilities	18	4,178	-	24,896	-
Retirement benefit obligations	18	10,932	-	11,913	-
Deferred tax liabilities	30	38,975	599	29,281	433
Current tax liabilities		2,553	-	4,179	-
Deferred income		17,835	-	15,862	-
Other liabilities	31	82,810	180	76,813	51
Total liabilities		1,063,727	30,237	1,054,091	23,942
Total equity and liabilities		1,674,996	70,342	1,590,314	61,345

The financial statements of Ecclesiastical Insurance Group plc, registered number 1718196, on pages 14 to 74 were approved and authorised for issue by the Board of Directors on 23 April 2018 and signed on its behalf by:

Mark Hews
Group Chief Executive

CONSOLIDATED AND PARENT STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

	Notes	2017 Group £000	2017 Parent £000	2016 Group £000	2016 Parent £000
Profit before tax		84,506	2,811	61,847	3,069
Adjustments for:					
Depreciation of property, plant and equipment		2,368	-	1,957	-
Revaluation of property, plant and equipment		-	-	(25)	-
(Profit)/loss on disposal of property, plant and equipment		(18)	-	26	-
Amortisation and impairment of intangible assets		2,483	-	5,391	-
Net fair value gains on financial instruments and investment property		(38,778)	(1,114)	(34,921)	(692)
Dividend and interest income		(28,513)	(2,043)	(31,697)	(2,694)
Finance costs		96	273	101	267
Adjustment for pension funding		3,205	-	877	-
Changes in operating assets and liabilities:					
Net increase/(decrease) in insurance contract liabilities		16,250	-	(2,407)	-
Net increase in reinsurers' share of contract liabilities		(31,837)	-	(15,806)	-
Net increase in deferred acquisition costs		(762)	-	(124)	-
Net increase in other assets		(7,307)	(3,401)	(6,405)	(563)
Net increase/(decrease) in operating liabilities		8,857	4	(1,611)	49
Net increase in other liabilities		285	-	1,634	-
Cash generated/(used) by operations		10,835	(3,470)	(21,163)	(564)
Purchases of financial instruments and investment property		(153,522)	-	(203,932)	-
Sale of financial instruments and investment property		169,426	-	219,446	-
Dividends received		12,405	2,196	8,355	2,375
Interest received		18,560	34	20,615	4
Interest paid		(96)	(273)	(101)	(267)
Tax (paid)/recovered		(7,389)	(56)	(5,335)	62
Net cash from/(used by) operating activities		50,219	(1,569)	17,885	1,610
Cash flows from investing activities					
Purchases of property, plant and equipment		(2,288)	-	(2,466)	-
Proceeds from the sale of property, plant and equipment		378	-	45	-
Purchases of intangible assets		(1,249)	-	(454)	-
Acquisition of business, net of cash acquired		(4,000)	-	-	-
Acquisition of interest in subsidiary		(1,478)	(1,478)	(816)	(3,059)
Net cash used by investing activities		(8,639)	(1,478)	(3,691)	(3,059)
Cash flows from financing activities					
Payment of finance lease liabilities		(314)	-	(368)	-
Proceeds from other borrowings		-	6,000	-	4,000
Payment of group tax relief in excess of standard rate		-	-	-	6
Dividends paid to non-controlling interests of subsidiaries		(8,953)	-	(9,104)	-
Donations paid to ultimate parent undertaking	14	(26,000)	-	(24,000)	-
Net cash used by financing activities		(35,267)	6,000	(33,472)	4,006
Net increase/(decrease) in cash and cash equivalents		6,313	2,953	(19,278)	2,557
Cash and cash equivalents at beginning of year		112,717	3,357	125,669	796
Exchange (losses)/gains on cash and cash equivalents		(757)	9	6,326	4
Cash and cash equivalents at end of year	24	118,273	6,319	112,717	3,357

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

Ecclesiastical Insurance Group plc (hereafter referred to as the 'Company', or 'Parent'), a public limited company incorporated and domiciled in England, together with its subsidiaries (collectively, the 'Group') operates principally as a provider of general insurance and in addition offers a range of financial services, with offices in the UK & Ireland, Australia and Canada. The principal accounting policies adopted in preparing the 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 2017 issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU). The financial statements have been prepared on the historical cost basis, except for the revaluation of properties and certain financial instruments.

A review of the Group's business activities is provided within the Strategic Report. In addition, notes 3 and 4 to the financial statements disclose the Group's principal risks and uncertainties, including exposures to insurance and financial risk and the Group's objectives for managing capital. The Group has considerable financial resources: financial investments of £866.6m, 93% of which are liquid (2016: financial investments of £872.3m, 94% liquid); cash and cash equivalents of £118.3m and no bank borrowings (2016: cash and cash equivalents of £112.7m and no bank borrowings). Liquid financial investments consist of listed equities and open-ended investment companies, government bonds and listed debt. The Group also has a strong risk management framework and solvency position, and has proved resilient to stress testing. As a consequence, the directors have a reasonable expectation that the Group is well placed to manage its business risks successfully and continue in operational existence for at least twelve months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

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

Items included in the financial statements of each of the Group's entities are measured in the currency of the primary economic environment in which that entity operates (the 'functional currency'). The consolidated financial statements are stated in sterling, which is the 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 Standards adopted in the current year are either outside the scope of Group transactions or do not materially impact the Group.

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

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 elible for, and expects to apply the deferral approach, which gives a temporary exemption from applying IFRS 9 until the effective date of 'IFRS 17, Insurance contracts'. The company is currently assessing the impact of the additional disclosures required under the deferral	Annual periods beginning on or after 1 January 2018. Although can be deferred until 2021 for insurers.
IFRS 15, *Revenue from Contracts with Customers*	Establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.	The Standard is not expected to have a material impact on the amount and timing of revenue recognised. Revenue from insurance contacts, which consist of insurance premiums and fee and commission income on reinsurance contracts, are not within the scope of the standard. Investment management fees are based on the value of funds under management and under IFRS 15 will continue to be recognised over time, matching the pattern of benefit received by customers. Within our broking businesses, commission and fees generated from insurance placements will continue to be recognised on policy inception date, in line with existing accounting policies. In relation to the sale of pre-paid funeral plans, IFRS 15 will require an element of revenue to be deferred in respect of the future performance obligation of administering claim payments, however we do not expect this to be material to the Group.	Annual periods beginning on or after 1 January 2018.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

IFRS 16, *Leases*	Provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the term is 12 months or less or the underlying asset has a low value.	Operating leases are in place for the majority of the Group's offices, and the Group is currently assessing the full impact of IFRS 16. The changes will result in a lease obligation, similar in magnitude to that disclosed in note 32, being recognised on the group and parent balance sheet along with a corresponding 'right-to-use' asset. There is not expected to be a significant impact on profit or loss. Though, it is expected that profile of operating lease costs in the profit and loss will change with higher charges in earlier years, reducing over the expected term of the lease, reflecting the financing component of the lease obligation.	Annual periods beginning on or after 1 January 2019.
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.	Applicable to annual reporting periods beginning on or after 1 January 2021 (subject to EU endorsement).

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

Use of estimates

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

Operating profit or loss

Operating profit or loss is stated before finance costs.

Basis of consolidation

Subsidiaries

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

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

The Group uses the acquisition method of accounting to account for business combinations. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Non-controlling interests are measured either at fair value or at a proportionate share of the identifiable net assets of the acquiree. Goodwill is measured as the excess of the aggregate of the consideration transferred, the fair value of contingent consideration, the 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.

Investment vehicles

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

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 long-term 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.

Long-term insurance business

The Group markets and sells pre-paid funeral plans, under the Perfect Choice brand. Immediately following a sale, the funeral plan funds are invested in a whole-of-life assurance policy with a life insurance company authorised by the Prudential Regulatory Authority (PRA). The group uses independent, third party, PRA authorised life insurance companies and a PRA authorised subsidiary Ecclesiastical Life Limited (ELL) for this purpose. ELL is closed to new business.

By holding the funds in a whole-of-life assurance policy the Plan meets the requirements of Article 60(1) (a) of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001.

The ultimate responsibility for providing the funeral is passed to independent funeral directors who are not owned by the Group.

In each case, the ultimate value and timing of the funeral plan funds that will be paid to the funeral director is uncertain. Therefore, the Group has accepted insurance risk, as defined under IFRS 4, from the plan holder. The settlement of the Group's obligation under the funeral plan contract is directly matched by the proceeds the Group receives from the whole-of-life assurance policy, which is shown as long-term reinsurance. Only where the whole-of-life assurance policy is provided by ELL is the Group exposed to the wider risks associated with a traditional life insurance business which are explained in more detail in note 4.

The funeral plan funds are recognised as written premium when receivable, at which date the liabilities arising from them are also recognised. The transfer of the funds to the life insurance company is then accounted for as a reinsurance premium, on the same day, which results in an offsetting reinsurance asset being recognised.

Fee and commission income

Fee and commission income consists primarily of reinsurance commissions and reinsurance profit commissions. It also includes income from the Group's insurance broking activities, sale and administration of funeral plans, investment fund management fees, distribution fees from mutual funds and commission revenue from the sale of mutual fund shares. 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 the year which relates 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 insurance placements is recognised at the inception date of the cover.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

Fees charged for investment management services are recognised as revenue when the services are provided. Initial fees which exceed the level of recurring fees and relate to the future provision of services are deferred and amortised over the anticipated period in which services will be provided. Fees charged for investment management services for institutional and retail fund management are also recognised on this basis. Management fees charged in respect of funeral plans are only refundable where the plan is cancelled within 30 days, and are recognised in full when the plan is sold with provision being made for the expected level of cancellations that give rise to a refund.

Other operating income
Other operating income consists of the return of surplus reserves from a government-backed reinsurance scheme and, in the prior year only, income arising from a lease transfer.

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

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

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 in 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.

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

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

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

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

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

Long-term business provisions
Under current IFRS requirements, long-term insurance contract liabilities arising from funeral plans, where the Group's liability under the funeral plan is linked to inflation, are measured using accounting policies consistent with those adopted previously prior to the adoption of IFRS 4. The long-term 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.

Long-term insurance contract liabilities arising from funeral plans, where the Group's liability under the funeral plan is linked to performance of a with-profits life assurance plan provided by an independent, third party, life insurance company, are based on the Group's estimate of the surrender value of the with-profits life assurance policy at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

Reinsurance

General insurance business

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.

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.

Long-term business

The Group is the named beneficiary on a number of life assurance products sold by independent, third party, life insurance companies. The Group has committed to pay the value it receives from these policies to the funeral director, appointed under the funeral plan of the named insured life, in consideration of their provision of the services agreed under the funeral plan. These contracts are shown as reinsurance of the corresponding obligations the group recognises in respect of the related funeral plan.

Intangible assets

Goodwill

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

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

Computer software

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

Other intangible assets

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

Property, plant and equipment

Owner-occupied properties are stated at open market value and movements are taken to the revaluation reserve within equity, net of deferred tax. When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings.

Where the market value of an individual property is below original cost, any revaluation movement arising during the year is recognised within net investment return in the statement of profit or loss. Valuations are carried out at least every three years by external qualified surveyors. All other items classed as property, plant and equipment within the statement of financial position are carried at historical cost less accumulated depreciation and impairment.

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

Computer equipment	3 - 5 years straight line
Motor vehicles	4 years straight line or 27% reducing balance
Fixtures, fittings and office equipment	3 - 10 years or length of lease straight line

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

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

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

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

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

- Financial instruments designated as at fair value through profit or loss, those held for trading, and hedge accounted derivatives under IFRIC 16 are subsequently carried at fair value. To the extent to which they are effective, changes to the fair value of hedging instruments are recognised in other comprehensive income, with all other fair value changes recognised through profit or loss in the period in which they arise.

- All other financial assets and liabilities are held 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 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 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.

(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.

Long-term business

For long-term 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 on call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

Insurance broking debtors and creditors

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

Leases

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

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

Provisions and contingent liabilities

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

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

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

Employee benefits

Pension obligations

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

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

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

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

Other post-employment obligations

Some Group companies provide post-employment medical benefits to their retirees. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Interest expense (calculated by applying a discount rate to the net obligations) is recognised through profit or loss. Actuarial gains and losses are recognised immediately in other comprehensive income. Independent qualified actuaries value these obligations annually.

Other benefits

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

Taxation

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

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

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

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

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)

The Group uses certain key performance indicators which, although not defined under IFRS, provide useful information and aim to enhance understanding of the Group's performance. The key performance indicators should be considered complementary to, rather than a substitute for, financial measures defined under IFRS. Note 35 provides details of how these key performance indicators reconcile to the results reported under IFRS.

2 Critical accounting estimates and judgements in applying accounting policies

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

(a) 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 18.

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 data, 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).

Recognition of long-term insurance contracts
The Group has applied judgement in determining, based on the criteria in IFRS4 'Insurance Contracts', that pre-paid funeral plans give rise to insurance risk and therefore should be accounted for under IFRS4. The inherent uncertainty surrounding the ultimate value and timing of the funeral plan funds that will be paid to the funeral director was fundamental in the Group forming this judgement. As a result, a liability in respect of future payments under funeral plans has been recognised in the statement of financial position, based on estimates as disclosed in note 2(b). A corresponding long-term reinsurance asset is recognised in respect of the whole-of-life assurance polices taken out by the Group with independent third parties to match these liabilities.

(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. 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 class of business, the amounts that such claims will be settled for and the timings of any 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).

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

Future benefit payments arising from long-term insurance contracts

The determination of the liabilities under long-term insurance business from the sale of funeral plans is dependent on estimates made by the Group.

Where the Group's liability under the funeral plan is linked to inflation, 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 assurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments. Further details are disclosed in note 28(b).

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

The expected rate of medical expense inflation is determined by comparing the historical relationship of medical expense increases over a portfolio of UK-based post-retirement medical plans with the rate of inflation, making an allowance for the size of the plan and actual medical expense experience. Other key assumptions for the pension and post-employment benefit costs and credits are based in part on current market conditions. Additional information including the sensitivity of pension and post-employment medical benefit scheme liabilities to changes in the key assumptions is disclosed in note 18.

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 cash flows and a suitable discount rate to calculate present value. Further details on these estimates and the sensitivities of the carrying value of goodwill to these estimates are provided in note 16.

Carrying value of tax liabilities

Calculating tax liabilities requires management to make judgements in respect of the tax payable for current and prior periods based on the interpretation of applicable tax legislation. In particular, the material deferred tax liability held by the Group primarily relates to future tax due on unrealised gains in respect of investments held prior to 2002. Gains on these assets are only recognised for tax purposes when sold. An estimate has to be made of the tax rate that would be applicable at the point of sale in order to determine the tax liability relating to the gain, applying tax rates substantively enacted at the balance sheet date. The amounts recognised in the financial statements that are affected by these estimates are disclosed in note 30.

3 Insurance risk

Through its general and long-term insurance operations, the Group is exposed to a number of risks, as summarised in the Risk Management Report of the Strategic Report in the accounts of Ecclesiastical Insurance Office plc. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount and timing of the resulting claim. Factors such as the business and product mix, the external environment including market competition and reinsurance capacity all may vary from year to year, along with the actual frequency, severity and ultimate cost of claims and benefits. This subjects the Group to underwriting and pricing risk (the risk of failing to ensure disciplined risk selection and 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 assurance policies support funeral planning products.

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

Group		General insurance				Long-term insurance	
		Property	Liability	Miscellaneous financial loss	Other	Funeral plans	Total
Territory		£000	£000	£000	£000	£000	£000
2017							
United Kingdom and Ireland	Gross	163,907	52,352	15,691	2,494	43,216	277,660
	Net	88,269	50,111	9,826	473	28	148,707
Australia	Gross	33,225	21,411	1,286	943	-	56,865
	Net	4,356	18,429	1,240	934	-	24,959
Canada	Gross	35,399	16,181	-	-	-	51,580
	Net	24,801	15,063	-	-	-	39,864
Total	Gross	232,531	89,944	16,977	3,437	43,216	386,105
	Net	117,426	83,603	11,066	1,407	28	213,530
2016							
United Kingdom and Ireland	Gross	156,083	50,152	14,000	2,546	26,783	249,564
	Net	84,843	47,713	9,040	550	77	142,223
Australia	Gross	23,112	16,769	1,105	824	-	41,810
	Net	3,091	14,459	1,065	817	-	19,432
Canada	Gross	31,159	14,311	-	-	-	45,470
	Net	21,057	13,385	-	-	-	34,442
Total	Gross	210,354	81,232	15,105	3,370	26,783	336,844
	Net	108,991	75,557	10,105	1,367	77	196,097

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

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

Contracts are underwritten on a reinstatement basis or repair and restoration basis as appropriate. Costs of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the 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 fire events.

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

Liability classes

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

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

The frequency and severity of claims arising on liability insurance contracts, including the liability element of motor contracts, can be affected by several factors. Most significant are the increasing level of awards for damages suffered, 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 makes it difficult to quantify the number of claims and, for certain types of claims, the amounts for which they will ultimately settle. The legal and legislative framework continues to 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) Long-term insurance risks

The Group sells pre-paid funeral plans where the future amount and timing of payments made to funeral directors, in consideration of their provision of the services agreed under the funeral plan, is uncertain at the time of sale.

Funeral plans sold by the Group, where the Group also provides the whole-of-life assurance policy backing the plan

In such cases, the Group's liability under the funeral plan are linked to inflation and backed by index-linked assets. Although assets held by the group are well matched to liabilities, the risk that returns on assets held to back liabilities are insufficient to meet future claims payments may occur, 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.

Funeral plans sold by the Group, where the Group invests in a whole-of-life assurance policy with an independent, third party, life insurance company

The Group has committed to pay the value it receives from the whole-of-life assurance policies to the funeral director, appointed under the funeral plan of the named insured life, in consideration of their provision of the services agreed under the funeral plan. The liability the Group recognises in respect of its obligations under the funeral plan are directly matched by the amount receivable under the whole-of-life assurance policy. The Group therefore has no net exposure to interest rate, inflation, spread or mortality risk in respect of these plans, with the principal risk of financial loss resulting from credit risk.

4 Financial risk and capital management

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

There has been no change from the prior period in the nature of the financial risks to which the Group is exposed. Brexit has continued to result in greater uncertainty in relation to the economic risks to which the Group is exposed, including equity price volatility, movements in exchange rates and long-term UK growth prospects. The Group's management and measurement of financial risks is informed by either stochastic modelling or stress testing techniques.

(a) Categories of financial instruments

	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 2017								
Financial investments	852,703	2,611	9,876	1,388	-	-	-	866,578
Other assets	-	-	123,370	-	-	-	4,065	127,435
Cash and cash equivalents	-	-	118,273	-	-	-	-	118,273
Borrowings	-	-	-	-	-	-	(1,611)	(1,611)
Other liabilities	-	-	-	-	-	(74,531)	(8,279)	(82,810)
Net other	-	-	-	-	-	-	(416,596)	(416,596)
Total	852,703	2,611	251,519	1,388	-	(74,531)	(422,421)	611,269
At 31 December 2016								
Financial investments	857,435	2,974	9,819	2,067	-	-	-	872,295
Other assets	-	-	119,402	-	-	-	3,723	123,125
Cash and cash equivalents	-	-	112,717	-	-	-	-	112,717
Borrowings	-	-	-	-	-	-	(1,417)	(1,417)
Other liabilities	-	-	-	-	(543)	(68,300)	(7,970)	(76,813)
Net other	-	-	-	-	-	-	(493,684)	(493,684)
Total	857,435	2,974	241,938	2,067	(543)	(68,300)	(499,348)	536,223
Parent								
At 31 December 2017								
Financial investments	6,892	-	-	-	-	-	52,818	59,710
Other assets	-	-	4,255	-	-	-	-	4,255
Cash and cash equivalents	-	-	6,319	-	-	-	-	6,319
Borrowings	-	-	-	-	-	(29,458)	-	(29,458)
Other liabilities	-	-	-	-	-	(180)	-	(180)
Net other	-	-	-	-	-	-	(541)	(541)
Total	6,892	-	10,574	-	-	(29,638)	52,277	40,105
At 31 December 2016								
Financial investments	5,778	-	-	-	-	-	51,340	57,118
Other assets	-	-	870	-	-	-	-	870
Cash and cash equivalents	-	-	3,357	-	-	-	-	3,357
Borrowings	-	-	-	-	-	(23,458)	-	(23,458)
Other liabilities	-	-	-	-	-	(51)	-	(51)
Net other	-	-	-	-	-	-	(433)	(433)
Total	5,778	-	4,227	-	-	(23,509)	50,907	37,403

* Financial liabilities are held at amortised cost.

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

NOTES TO THE FINANCIAL STATEMENTS

4 Financial risk and capital management (continued)

(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	Fair value measurement at the end of the reporting period based on			
Group	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
At 31 December 2017				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	286,552	238	49,171	335,961
Debt securities	515,277	1,340	125	516,742
Derivatives	-	2,611	-	2,611
	801,829	4,189	49,296	855,314
Financial assets at fair value through other comprehensive income				
Financial investments				
Derivatives	-	1,388	-	1,388
Total financial assets at fair value	801,829	5,577	49,296	856,702
At 31 December 2016				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	262,459	267	41,155	303,881
Debt securities	551,539	1,876	139	553,554
Derivatives	-	2,974	-	2,974
	813,998	5,117	41,294	860,409
Financial assets at fair value through other comprehensive income				
Financial investments				
Derivatives	-	2,067	-	2,067
Total financial assets at fair value	813,998	7,184	41,294	862,476
Parent				
At 31 December 2017				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	-	-	6,892	6,892
Total financial assets at fair value	-	-	6,892	6,892
At 31 December 2016				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	-	-	5,778	5,778
Total financial assets at fair value	-	-	5,778	5,778

The derivative liabilities of the Group in the prior year were measured at fair value through profit or loss and categorised as level 2 (see note 22).

NOTES TO THE FINANCIAL STATEMENTS
4 Financial risk and capital management (continued)

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

Group	Financial assets at fair value through profit and loss Equity securities £000	Debt securities £000	Total £000
At 31 December 2017			
Opening balance	41,155	139	41,294
Total gains recognised in profit or loss	9,116	1	9,117
Disposal proceeds	(1,100)	(15)	(1,115)
Closing balance	49,171	125	49,296
Total gains for the period included in profit or loss for assets held at the end of the reporting period	8,011	1	8,012
At 31 December 2016			
Opening balance	36,304	187	36,491
Total gains/(losses) recognised in profit or loss	4,851	(48)	4,803
Closing balance	41,155	139	41,294
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	4,851	(48)	4,803
Parent			
At 31 December 2017			
Opening balance	5,778	-	5,778
Total gains recognised in profit or loss	1,114	-	1,114
Closing balance	6,892	-	6,892
Total gains for the period included in profit or loss for assets held at the end of the reporting period	1,114	-	1,114
At 31 December 2016			
Opening balance	5,086	-	5,086
Total gains recognised in profit or loss	692	-	692
Closing balance	5,778	-	5,778
Total gains for the period included in profit or loss for assets held at the end of the reporting period	692	-	692

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

NOTES TO THE FINANCIAL STATEMENTS

4 Financial risk and capital management (continued)

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

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

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

Non-exchange-traded derivative contracts (level 2)

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

Unlisted equity securities (level 3)

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

The valuation is most sensitive to the level of underlying net assets, the Euro exchange rate, the price-to-book ratio chosen, an illiquidity discount and a credit rating discount applied to the valuation to account for the risks associated with holding the asset. If the price-to-book ratio, illiquidity discount and credit rating discount applied changes by +/-10%, the value of unlisted equity securities could move by +/-£6m (2016: +/-£5m).

The increase in value during the year is primarily the result of an increase in the price-to-book ratio and a weakening of sterling against the Euro, partially offset by an increase in the illiquidity discount.

Unlisted debt (level 3)

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

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

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

(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 long-term business, the average duration of the Group's fixed income portfolio is two years (2016: 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 funeral plans sold by the Group, where the Group also provides the whole-of-life assurance policy backing the plan, benefits payable to policyholders are independent of the returns generated by interest-bearing assets held by the Group. 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.

Where the Group invests funeral plan funds in a whole-of-life assurance policy with an independent, third party, life insurance company, the Group has no net exposure to interest rate risk.

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

Group long-term business	Maturity: Within 1 year £000	Maturity: Between 1 & 5 years £000	Maturity: After 5 years £000	Total £000
At 31 December 2017				
Assets				
Debt securities	5,266	21,638	73,231	100,135
Cash and cash equivalents	7,399	-	-	7,399
	12,665	21,638	73,231	107,534
Liabilities (discounted)				
Gross long-term business provision	16,451	56,209	143,546	216,206
Ceded long-term business provision	(10,420)	(35,062)	(82,583)	(128,065)
Net long-term business provision	6,031	21,147	60,963	88,141
At 31 December 2016				
Assets				
Debt securities	9,359	20,578	77,580	107,517
Cash and cash equivalents	4,680	-	-	4,680
	14,039	20,578	77,580	112,197
Liabilities (discounted)				
Gross long-term business provision	13,548	46,576	122,228	182,352
Ceded long-term business provision	(7,359)	(24,764)	(58,329)	(90,452)
Net long-term business provision	6,189	21,812	63,899	91,900

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 general insurance liabilities (excluding provision for unearned premiums) and amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance intermediaries and policyholders; and
- the carrying value of whole-of-life assurance policies, purchased by the Group from independent, third party, life insurance companies, to meet the Group's obligations in respect of funeral plans sold.

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. 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 agencies.

A detailed breakdown of the Group's current debt securities and cash credit exposure by credit quality shown below.

	At 31 December 2017		At 31 December 2016	
Group	Debt securities	Cash*	Debt securities	Cash*
	£000	£000	£000	£000
AAA	122,829	-	115,138	-
AA	144,613	26,926	189,324	13,231
A	141,312	41,093	142,251	48,524
BBB	88,483	59,974	83,113	60,667
Below BBB	10,364	90	13,569	-
Not rated	9,151	50	10,159	97
	516,742	128,133	553,554	122,519

Parent	At 31 December 2017		At 31 December 2016	
	Debt securities	Cash*	Debt securities	Cash*
	£000	£000	£000	£000
A	-	4,539	-	1,213
BBB	-	1,780	-	2,144
	-	6,319	-	3,357

*Cash includes amounts held on deposit classified within financial investments and disclosed in note 21. Cash balances which are not rated include cash amounts in hand.

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:

Group	2017 £000	2016 £000
UK	331,787	373,984
Australia	86,440	83,961
Canada	74,143	72,353
Europe	24,372	23,256
Total	516,742	553,554

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

There has been no significant change in the recoverability of the Group's general business reinsurance balances during the year with all reinsurers on the 2017 reinsurance programme having a minimum rating of 'A-' from Standard & Poor's or an equivalent rating from a similar agency at the time of purchase.

Purchase of a whole-of-life assurance policy does not discharge the Group's liability to provide a funeral. If a third party life insurance company fails to pay a claim on notification of death of the insured life, for any reason, the Group remains liable for the funeral fee payable to the funeral director. The Group purchases life assurance policies from reputable, authorised life insurance companies, which are regulated by the PRA and FCA, and considers the risk of non-payment to be remote.

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

(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:

	2017			2016	
	Group £000	Parent £000		Group £000	Parent £000
UK	286,715	-	UK	257,856	-
Europe	49,060	6,892	Europe	41,150	5,778
Hong Kong	186	-	Canada	3,085	-
US	-	-	US	1,585	-
Other	-	-	Other	205	-
Total	335,961	6,892	Total	303,881	5,778

(f) Liquidity risk

Liquidity risk is the risk that funds may not be available to pay obligations when due. The Group is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts. An estimate of the timing of the net cash outflows resulting from insurance contracts is provided in note 28. The Group has robust processes in place to manage liquidity risk and has available cash balances, other readily marketable assets and access to funding in case of exceptional need. This is not considered to be a significant risk to the Group.

Non-derivative financial liabilities consist of finance leases, which are not material to the Group, and other liabilities for which a maturity analysis is included in note 31.

(g) Currency risk

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

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

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

- the operating results of the Group's foreign branches and subsidiaries in the Group financial statements are translated at the average exchange rates prevailing during the period; and

- the equity investment in foreign branches and subsidiaries is translated into sterling using the exchange rate at the year-end date.

The Group has designated certain derivatives as a hedge of its net investments in Canada and Australia, which have Canadian and Australian dollars respectively as their functional currency. The forward foreign currency risk arising on translation of these foreign operations is hedged by the derivatives which are detailed in note 22.

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

	2017			2016	
	Group	Parent		Group	Parent
	£000	£000		£000	£000
Aus $	48,861	-	Aus $	48,728	-
Euro	45,176	6,894	Can $	38,592	-
Can $	31,584	-	Euro	38,661	5,776
USD $	640	-	USD $	848	-
NZ $	282	-	Japanese Yen	603	-

The figures in the table above, for the current and prior years, do not include currency risk that the Group is exposed to on a 'look through' basis in respect of collective investment schemes denominated in Sterling. The Group enters into derivatives to hedge currency exposure, including exposures on a 'look through' basis. The open derivatives held by the Group at the year end to hedge currency exposure are detailed in note 22.

(h) Market risk sensitivity analysis

The sensitivity of profit and other equity reserves to movements on market risk variables (comprising interest rate, currency and equity price risk), each considered in isolation and before the mitigating effect of derivatives, is shown in the table below. This table does not include the impact of variables on retirement benefit schemes. Financial risk sensitivities for retirement benefit schemes are disclosed separately in note 18.

Group		Potential increase/ (decrease) in profit		Potential increase/ (decrease) in other equity reserves	
Variable	Change in variable	2017 £000	2016 £000	2017 £000	2016 £000
Interest rate risk	-100 basis points	(6,686)	(8,570)	(6)	122
	+100 basis points	3,496	4,699	2	(139)
Currency risk	-10%	4,721	4,491	8,017	8,453
	+10%	(3,863)	(3,674)	(6,559)	(6,916)
Equity price risk	+/-10%	27,129	24,310	-	-

Parent		Potential increase/ (decrease) in profit		Potential increase/ (decrease) in other equity reserves	
Variable	Change in variable	2017 £000	2016 £000	2017 £000	2016 £000
Currency risk	-10%	619	514	-	-
	+10%	(506)	(420)	-	-
Equity price risk	+/-10%	557	462	-	-

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

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

(i) Capital management

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

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

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

In the UK, the Group and its UK regulated entities are required to comply with rules issued by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA).

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). Both quarterly and annual quantitative returns are submitted to the PRA, in addition to an annual narrative report, the Solvency and Financial Condition Report (SFCR) which is also published on the company website. A further report, the Regular Supervisory Report (RSR) is periodically submitted to the PRA.

The current year figures in the table below are unaudited and based on the latest information provided to management. These figures will be subject to a separate independent audit, as part of the Group's process for Solvency II reporting to the PRA. Final audited figures will be made publicly available in the SFCR. The Group expects to meet the deadline for submission to the PRA of 4 May 2018 and its SFCR will be made available on the Group's website shortly thereafter.

	2017 (unaudited) £000	2016 (audited) £000
Solvency II Own Funds	528,189	448,418
Solvency Capital Requirement	(304,505)	(287,612)
Own Funds in excess of Solvency Capital Requirement	223,684	160,806
Solvency II Capital Cover	173%	156%

The regulated entities of the Group have adopted the Solvency II standard formula approach to determine their respective solvency capital requirements (SCR). The Group is working with the PRA to gain approval of a full internal model for Ecclesiastical Insurance Office plc in the near future.

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.

5 Segment information

(a) Operating segments

The Group segments its business activities on the basis of differences in the products and services offered and, for general insurance, the underwriting territory. Expenses relating to Group management activities are included within 'Corporate costs'. This reflects the management and internal Group reporting structure.

The activities of each operating segment are described below.

- **General business**

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

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

  Canada
  The Group operates a general insurance Ecclesiastical branch in Canada.

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

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

- **Broking and Advisory**
  The Group provides insurance broking through South Essex Insurance Brokers Limited and Lycetts Holdings Limited, advisory services through Ecclesiastical Financial Advisory Services Limited, and prepaid funeral plan distribution and administration through Ecclesiastical Planning Services Limited.

- **Long-term insurance business**
  The Group markets and sells pre-paid plans through Ecclesiastical Planning Services Limited.

  Ecclesiastical Life Limited provides long-term assurance policies to support certain funeral planning products written by the Group and third parties. It is closed to new business.

- **Corporate costs**
  This includes costs associated with Group management activities.

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

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 1.

NOTES TO THE FINANCIAL STATEMENTS

5 Segment information (continued)

Segment revenue

The Group uses gross written premiums as the measure for turnover of the general and long-term 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.

	2017			2016		
	Gross written premiums £000	Non-insurance services £000	Total £000	Gross written premiums £000	Non-insurance services £000	Total £000
General business						
United Kingdom and Ireland	231,257	-	231,257	220,342	-	220,342
Australia	56,865	-	56,865	41,810	-	41,810
Canada	51,580	-	51,580	45,470	-	45,470
Other insurance operations	3,187	-	3,187	2,439	-	2,439
Total	342,889	-	342,889	310,061	-	310,061
Long-term business	43,216	-	43,216	26,783	-	26,783
Investment management	-	11,685	11,685	-	10,227	10,227
Broking and Advisory	-	32,058	32,058	-	29,613	29,613
Group revenue	386,105	43,743	429,848	336,844	39,840	376,684

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

Segment result

General business segment results comprise the insurance underwriting profit or loss, investment activities and other expenses of each underwriting territory. The Group uses the industry standard net combined operating ratio (COR) as a measure of underwriting efficiency. The COR expresses the total of net claims costs, commission and underwriting expenses as a percentage of net earned premiums. Further details on the underwriting profit or loss and COR, which are alternative performance measures that are not defined under IFRS, are detailed in note 35.

The long-term 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.

2017	*Combined operating ratio*	Insurance £000	Investments £000	Other £000	Total £000
General business					
United Kingdom and Ireland	77.1%	32,692	55,454	(23)	88,123
Australia	96.9%	685	3,932	(77)	4,540
Canada	118.5%	(7,165)	1,122	4	(6,039)
Other insurance operations		854	-	-	854
	86.9%	27,066	60,508	(96)	87,478
Long-term business		374	5,127	-	5,501
Investment management		-	-	1,717	1,717
Broking and Advisory		-	-	3,259	3,259
Corporate costs		-	-	(14,783)	(14,783)
Other activities		-	1,334	-	1,334
Profit/(loss) before tax		27,440	66,969	(9,903)	84,506

5 Segment information (continued)

2016	*Combined operating ratio*	Insurance £000	Investments £000	Other £000	Total £000
General business					
United Kingdom and Ireland	82.5%	25,015	42,456	(11)	67,460
Australia	106.7%	(1,202)	2,392	(80)	1,110
Canada	110.3%	(3,447)	751	(2)	(2,698)
Other insurance operations		(291)	-	-	(291)
	89.8%	20,075	45,599	(93)	65,581
Long-term business		(652)	3,950	-	3,298
Investment management		-	-	1,587	1,587
Broking and Advisory		-	-	703	703
Corporate costs		-	-	(10,134)	(10,134)
Other activities		-	812	-	812
Profit/(loss) before tax		19,423	50,361	(7,937)	61,847

(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:

	2017		2016	
	Gross written premiums £000	Non-current assets £000	Gross written premiums £000	Non-current assets £000
United Kingdom and Ireland	**277,660**	**219,695**	249,564	188,482
Australia	**56,865**	**1,351**	41,810	1,445
Canada	**51,580**	**3,650**	45,470	3,789
	386,105	**224,696**	336,844	193,716

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	Long-term business £000	Total £000
For the year ended 31 December 2017			
Gross written premiums	342,889	43,216	386,105
Outward reinsurance premiums	(129,387)	(43,188)	(172,575)
Net written premiums	213,502	28	213,530
Change in the gross provision for unearned premiums	(12,369)	-	(12,369)
Change in the provision for unearned premiums, reinsurers' share	6,051	-	6,051
Change in the net provision for unearned premiums	(6,318)	-	(6,318)
Earned premiums, net of reinsurance	207,184	28	207,212
For the year ended 31 December 2016			
Gross written premiums	310,061	26,783	336,844
Outward reinsurance premiums	(114,041)	(26,706)	(140,747)
Net written premiums	196,020	77	196,097
Change in the gross provision for unearned premiums	2,926	-	2,926
Change in the provision for unearned premiums, reinsurers' share	(1,823)	-	(1,823)
Change in the net provision for unearned premiums	1,103	-	1,103
Earned premiums, net of reinsurance	197,123	77	197,200

7 Net investment return

	2017 £000	2016 £000
Income from financial assets at fair value through profit or loss		
- equity income	10,797	10,091
- debt income	16,410	17,682
Income from financial assets not at fair value through profit or loss		
- cash and cash equivalents income, net of exchange movements	788	3,682
- other income received	1,251	1,257
Other income		
- rental income	7,511	6,387
Investment income	36,757	39,099
Fair value movements on financial instruments at fair value through profit or loss	31,364	36,037
Fair value movements on investment property	7,414	(1,116)
Impact of discount rate change on insurance contract liabilities	(1,839)	(18,612)
Net investment return	73,696	55,408

Included within cash and cash equivalents income are exchange gains of £333,000 (2016: £2,995,000).

Included within fair value movements on financial instruments at fair value through profit or loss are £7,778,000 (2016: £681,000) losses in respect of derivative instruments.

8 Claims and change in insurance liabilities and reinsurance recoveries

	General business £000	Long-term business £000	Total £000
For the year ended 31 December 2017			
Gross claims paid	148,717	14,152	162,869
Gross change in the provision for claims	(30,807)	-	(30,807)
Gross change in long-term business provisions	-	33,417	33,417
Claims and change in insurance liabilities	117,910	47,569	165,479
Reinsurers' share of claims paid	(43,676)	(7,994)	(51,670)
Reinsurers' share of change in the provision for claims	11,480	-	11,480
Reinsurers' share of change in long-term business provisions	-	(37,572)	(37,572)
Reinsurance recoveries	(32,196)	(45,566)	(77,762)
Claims and change in insurance liabilities, net of reinsurance	85,714	2,003	87,717
For the year ended 31 December 2016			
Gross claims paid	184,763	11,617	196,380
Gross change in the provision for claims	(47,073)	(84)	(47,157)
Gross change in long-term business provisions	-	18,998	18,998
Claims and change in insurance liabilities	137,690	30,531	168,221
Reinsurers' share of claims paid	(64,907)	(5,363)	(70,270)
Reinsurers' share of change in the provision for claims	13,743	-	13,743
Reinsurers' share of change in long-term business provisions	-	(23,475)	(23,475)
Reinsurance recoveries	(51,164)	(28,838)	(80,002)
Claims and change in insurance liabilities, net of reinsurance	86,526	1,693	88,219

9 Fees, commissions and other acquisition costs

	2017 £000	2016 £000
Fees paid	1,182	740
Commission paid	51,812	45,592
Change in deferred acquisition costs	(762)	(124)
Other acquisition costs	13,389	15,000
Fees, commissions and other acquisition costs	65,621	61,208

10 Profit for the year

	2017 £000	2016 £000
Profit for the year has been arrived at after (crediting)/charging		
Net foreign exchange gains	(333)	(2,995)
Depreciation of property, plant and equipment	2,368	1,957
(Profit)/loss on disposal of property, plant and equipment	(18)	26
Amortisation of intangible assets	2,457	2,314
Impairment of goodwill	26	3,077
(Increase)/decrease in fair value of investment property	(7,414)	1,116
Employee benefits expense including termination benefits	90,602	82,814
Operating lease rentals	3,914	3,994

11 Auditor's remuneration

	2017 £000	2016 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	32	16
Fees payable to the Company's auditor and its associates for other services:		
- The audit of the Company's subsidiaries	569	498
Total audit fees	601	514
- Audit-related assurance services	269	281
- Other assurance services	-	7
Total non-audit fees	269	288
Fees payable to the Company's auditor in respect of associated pension schemes		
- The audit of associated pension schemes	18	17
Total auditor's remuneration	888	819

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

12 Employee information

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

	2017 General business No.	2017 Long-term business No.	2017 Other No.	2016 General business No.	2016 Long-term business No.	2016 Other No.
United Kingdom and Ireland	750	1	403	727	1	382
Australia	85	-	-	87	-	-
Canada	73	-	-	71	-	-
	908	1	403	885	1	382

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.

	2017 £000	2016 £000
Wages and salaries	74,378	68,714
Social security costs	7,117	6,682
Pension costs - defined contribution plans	3,865	3,495
Pension costs - defined benefit plans	5,046	3,127
Other post-employment benefits	307	346
	90,713	82,364

The amounts above include £314,000 (2016: £223,000) in relation to employee benefits recharged to related undertakings of the group.

The above figures do not include termination benefits of £203,000 (2016: £729,000).

The number of persons employed by the Parent during the year was nil (2016: nil).

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

	2017 £000	2016 £000
Salaries and other short-term employee benefits	2,735	2,541
Long-term cash incentive	708	708
Post-employment benefits	148	139
	3,591	3,388

Directors' remuneration includes amounts paid in Canadian dollars. An average exchange rate of 1.6850 Canadian dollars to 1 GBP has been used in respect of the current and prior year.

Post-employment benefits includes £55,000 (2016: £52,000) in respect of contributions to a defined contribution scheme. The prior year has been restated for the effects of exchange.

No directors who were employed by Ecclesiastical Insurance Office plc were members of the Group's defined benefit pension scheme during the year (2016: no directors). Three directors (2016: three) were members of the Group's defined contribution scheme during the year.

		2017 £000	2016 £000
Highest paid director	- emoluments	1,212	1,370
	- money purchase pension contributions	-	-
Chairman's fees *		110	116

*Mr Hylands was appointed as Chairman of the Group on 31 March 2017 following the resignation of Mr Creasy.

13 Tax expense

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

		2017 £000	2016 £000
Current tax	- current year	11,495	9,319
	- prior years	558	84
Deferred tax	- temporary differences	2,542	1,281
	- prior years	(45)	-
	- reduction in tax rate	-	(1,385)
Total tax expense		14,550	9,299

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:

	2017 £000	2016 £000
Profit before tax	84,506	61,847
Tax calculated at the UK blended standard rate of tax of 19.25% (2016: 20.25%)	16,267	12,369
Factors affecting charge for the year:		
Expenses not deductible for tax purposes	583	1,413
Non-taxable income	(2,793)	(2,867)
Long-term insurance and other tax paid at non-standard rates	316	(377)
(Utilisation)/generation of tax losses for which no deferred tax asset has been recognised	(336)	62
Impact of reduction in deferred tax rate	-	(1,385)
Adjustments to tax charge in respect of prior periods	513	84
Total tax expense	14,550	9,299

A change in the UK standard rate of corporation tax from 20% to 19% became effective from 1 April 2017. Where appropriate, current tax has been provided at a blended rate of 19.25% for the current year and at a rate of 20% for the prior year. A further reduction in the rate of corporation tax to 17% will become effective from April 2020. Deferred tax has been provided at an average rate of 17.9% (2016: 17.6%).

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

	2017 £000	2016 £000
Current tax (credited)/charged on:		
Fair value movements on hedge derivatives	(30)	204
Deferred tax (credited)/charged on:		
Fair value movements on property	(6)	(5)
Actuarial movements on retirement benefit plans	7,628	(5,844)
Fair value movements on hedge derivatives	103	19
Total tax charged/(credited) to other comprehensive income	7,695	(5,626)

Tax relief on charitable grants of £5,005,000 (2016: £4,800,000) is taken directly to equity.

14 Appropriations

	2017 £000	2016 £000
Charitable grants		
Gross charitable grants to the ultimate parent company, Allchurches Trust Limited	26,000	24,000
Tax relief	(5,005)	(4,800)
Net appropriation for the year	20,995	19,200

15 Acquisition of business

On 18 November 2016, Ecclesiastical Planning Services Limited acquired certain assets of Funeral Planning Services Limited (FPSL), an unlisted independent provider of prepaid funeral plans, in order to further expand our funeral planning business. The transfer of assets was completed on 17 February 2017, at which point the Group obtained control.

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

	£000
Intangible assets	2,232
Goodwill	3,018
Total consideration	5,250
Satisfied by:	
Cash	4,000
Contingent consideration arrangement	1,250
	5,250

The net cash outflow arising on acquisition was £4,000,000.

The goodwill of £3,018,000 arising from the acquisition consists of intangible assets not qualifying for separate recognition, such as synergies and new business opportunities. None of the goodwill is expected to be deductible for tax purposes.

The fair value of the identifiable intangible assets of £2,232,000 consists of the value of distributor relationships acquired.

The contingent consideration arrangement requires a cash payment to be made on each of the first and second anniversaries of the completion date. The amount paid in each case is determined by the number of funeral plan sales in two consecutive annual 'earn-out' periods which end on the anniversary of the exchange date.

The fair value of the contingent consideration at acquisition was £1,250,000 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 £1,750,000.

At the balance sheet date the fair value of the contingent consideration is £1,050,000 and the movement in the fair value, as shown in note 29, has been credited to profit or loss in the year. Based on actual sales acheived in the first 'earn-out' period, at the balance sheet date the potential future payment is between £750,000 and £1,500,000, for which the Parent company acts as a guarantor.

No material acquisition related costs were incurred in relation to the transaction.

FPSL contributed £1,194,000 revenue and £140,000 to the Group's profit before tax for the period between the date of acquisition and the balance sheet date.

16 Goodwill and other intangible assets

Group	Goodwill £000	Computer software £000	Other intangible assets £000	Total £000
Cost				
At 1 January 2017	57,016	20,747	16,727	94,490
Additions	3,018	1,249	2,232	6,499
Exchange differences	-	(98)	-	(98)
At 31 December 2017	60,034	21,898	18,959	100,891
Accumulated impairment losses and amortisation				
At 1 January 2017	12,772	16,205	9,934	38,911
Amortisation charge for the year	-	1,104	1,353	2,457
Impairment losses for the year	26	-	-	26
Exchange differences	-	(26)	-	(26)
At 31 December 2017	12,798	17,283	11,287	41,368
Net book value at 31 December 2017	47,236	4,615	7,672	59,523
Cost				
At 1 January 2016	56,303	20,509	16,727	93,539
Additions	713	454	-	1,167
Disposals	-	(1,012)	-	(1,012)
Exchange differences	-	796	-	796
At 31 December 2016	57,016	20,747	16,727	94,490
Accumulated impairment losses and amortisation				
At 1 January 2016	9,695	15,882	8,805	34,382
Amortisation charge for the year	-	1,185	1,129	2,314
Impairment losses for the year	3,077	-	-	3,077
Disposals	-	(1,012)	-	(1,012)
Exchange differences	-	150	-	150
At 31 December 2016	12,772	16,205	9,934	38,911
Net book value at 31 December 2016	44,244	4,542	6,793	55,579

£20,032,000 of the goodwill balance in the current and prior year relates to the acquisition of Lycetts Holdings Limited during 2011. £16,885,000 of the goodwill balance in the current and prior year relates to the acquisition of South Essex Insurance Holdings Limited during 2008. £4,392,000 of the goodwill balance in the current and prior year relates to the acquisition of Lansdown Insurance Brokers Limited during 2014. £3,018,000 of the goodwill balance in the current year only, relates to the acquisition of the assets of Funeral Planning Services Limited by Ecclesiastical Planning Services Limited (see note 15).

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% (2016: 1.9%) as being appropriate, based on medium-term rates published in the OBR's November report. The pre-tax discount rate of 10.3% (2016: 11.3%) reflects the way that the market would assess the specific risks associated with the estimated cash flows.

The recoverable amount of the goodwill relating to Lycetts Holdings Limited and its carrying amount are broadly in line as at the reporting date. This is consistent with the position in the prior year following a £3,000,000 impairment in 2016. As the recoverable amount does not exceed the carrying amount, any adverse change in key assumptions would result in goodwill being impaired. The calculation of the recoverable amount is most sensitive to changes in cash flow projections and changes to the pre-tax discount rate. Lycetts Holdings Limited is included within the Broking and Advisory segment (see note 5).

The recoverable amount of the investment in South Essex Insurance Holdings Limited exceeds its carrying amount by £4.4m. If the cumulative growth rate between 2018 and 2020 was 5.8% lower than assumed in management-approved business plans, or the discount rate increased by 1.3%, then the recoverable amount would equal the carrying amount. For the investment in Lansdown Insurance Brokers Limited, the headroom above the carrying value is significant and reasonably possible changes to the key assumptions do not result in impairment.

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

Other intangible assets consist of acquired brand, customer and distribution relationships. £4,980,000 of the intangible assets balance in the current year relates to the acquisition of Lycetts Holdings Limited and has a remaining useful life of five years (2016: six years). £2,009,000 of the intangible assets in the current year relates to the acquisition of the assets of Funeral Planning Services Limited and has a remaining useful life of nine years.

17 Deferred acquisition costs

Group	2017 £000	2016 £000
At 1 January	30,705	28,394
Increase in the period	31,414	29,756
Release in the period	(30,652)	(29,632)
Exchange differences	(200)	2,187
At 31 December	31,267	30,705

All balances are current.

18 Retirement benefit schemes

Defined contribution pension plans

The Group operates a number of defined contribution pension plans, for which contributions by the Group are disclosed in note 12.

Defined benefit pension plans

The Group's main plan is a defined benefit plan operated by Ecclesiastical Insurance Office plc (EIO) for UK employees, which includes two discrete sections, the EIO Section and Ansvar Section. The plan is now closed to new entrants but remains open to future accrual. 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 assets of the plan are held separately from those of the Group by the Trustee of the Ecclesiastical Insurance Office plc Staff Retirement Benefit Fund (the 'Fund'). The Fund is subject to the Statutory Funding Objective under the Pensions Act 2004. An independent qualified actuary appointed by the Trustee is responsible for undertaking triennial valuations to determine whether the Statutory Funding Objective is met. Pension costs for the plan are determined by the Trustee, having considered the advice of the actuary and having consulted with the employer. The most recent triennial valuation was at 31 December 2016. Following the triennial valuation, and in accordance with the plan's Statement of Funding Principles, a new schedule of contributions was agreed between the Trustee and EIO, which will be in place until 31 March 2021.

Actuarial valuations of the Group's main plan were reviewed and updated by an independent qualified actuary at 31 December 2017 for IAS 19 purposes. In the current year, the IAS 19 surplus in the scheme has been recognised in full in accordance with International Financial Reporting Interpretations Committee 14 (IFRIC 14) on the basis of the maximum economic benefit available through a reduction in future contributions.

Lycett, Browne-Swinburne & Douglass Limited also operates a defined benefit plan. The plan was closed to new members subsequent to the 1 January 2011 renewal. The most recent triennial valuation was at 1 January 2015. The actuarial valuation was reviewed and updated by an independent qualified actuary at 31 December 2017 for IAS 19 purposes.

The contribution expected to be paid by the Group during the next financial year is £3.1m (2016: £2.8m).

In the current year, actuarial losses arising from changes in financial assumptions of £21.5m (2016: actuarial losses of £71.3m) have been recognised in the statement of other comprehensive income. These losses resulted from a 0.2% decrease in the discount rate and a 0.9% increase in the discretionary pension increase assumption, partially offset by a 0.1% decrease in inflation.

Actuarial gains arising from changes in demographic assumptions and actual experience have offset the actuarial losses arising from changes in financial assumptions in the current year. In setting the demographic assumptions in the IAS 19 valuation of the Group's main plan, reference is made to the assumptions used in the triennial valuation. Following the triennial valuation of that plan at 31 December 2016, the current year mortality assumptions used in the IAS 19 valuation have been set using the Self-Administered Pension Schemes (SAPS) S2 all pensioners standard tables and the Continuous Mortality Investigation Bureau CMI 2016 table, reflecting the latest experience in trends in mortality. Changes in mortality and other demographic assumptions have resulted in a £23.3m actuarial gain during the year (2016: £0.2m).

In line with common market practice, the defined benefit obligation at the end of the year is projected based on a roll forward of the liabilities in the previous triennial valuation. When membership experience differs to that expected based on a roll forward of liabilities, an actuarial gain or loss arises. The £8.6m experience gain recognised in the year includes membership and other experience adjustments (2016: £2.7m gain arising from other experience adjustments).

The plans typically expose the Group to risks such as:

- Investment risk: The plans holds some of their investments in asset classes, such as equities, which have volatile market values and, while these assets are expected to provide the best returns over the long term, any short-term volatility could cause additional funding to be required if a deficit emerges. The Group's main plan uses derivative contracts from time to time, which would limit losses in the event of a fall in equity markets.

- Interest rate risk: Scheme liabilities are assessed using market rates of interest to discount the liabilities and are therefore subject to any volatility in the movement of the market rate of interest. The net interest income or expense recognised in profit or loss is also calculated using the market rate of interest. The Group's main plan holds liability driven investments (LDIs) to hedge part of the exposure of the scheme's liabilities to movements in interest rates.

- Inflation risk: A significant proportion of scheme benefits are linked to inflation. Although scheme assets are expected to provide a good hedge against inflation over the long term, movements over the short term could lead to a deficit emerging. The Group's main plan holds LDIs to hedge part of the exposure of the scheme's liabilities to movements in inflation expectations.

- Mortality risk: In the event that members live longer than assumed the scheme liabilities may be understated, and a deficit may emerge if funding has not adequately provided for the increased life expectancy.

- Currency risk: The plans hold some of their investments in foreign denominated assets. As scheme liabilities are denominated in sterling, short-term fluctuations in exchange rates could cause additional funding to be required if a deficit emerges. The Group's main plan uses currency derivative contracts from time to time, which would limit losses in the event of adverse movements in exchange rates.

The Trustees of the Group's main plan set the investment objectives and strategy for the Fund based on independent advice and in consultation with the employer. A blend of diversified growth assets (equities and property) and protection assets (bonds and gilts) are deployed to balance the level of risk to that required to provide, with confidence, a sufficient return to continue to meet member's obligations as they fall due. The Trustees have identified the key risks to this objective to be falls in interest rates and rising inflation.

In December 2016 the Trustees of the Group's main plan commenced incrementally building an LDI portfolio, structured to increase in value with decreases in interest rates and grow in line with inflation expectations. Gradually increasing the 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 volatility in the funding position. Monthly cash transfers have enabled the LDI portfolio to grow incrementally during 2017 to a point where 60% of the Fund's exposure to changes in interest rates and inflation had been hedged shortly after the year end.

EIO was also the sponsoring employer of the Ecclesiastical Insurance Office plc Pension & Life Assurance Scheme (EIOPLA). The defined benefit obligations of the scheme were discharged in December 2015. During the current year the formal wind-up of the EIOPLA scheme was completed with the remaining surplus in the scheme of £288,000 refunded. The surplus was distributed equally between the existing and previous sponsoring employers. EIO, as existing sponsoring employer, received £144,000 on wind-up.

In the prior year, the surplus in the EIOPLA scheme recognised in the statement of financial position was restricted to £144,000 in line with the amount of surplus expected to be refunded to EIO in accordance with IFRIC 14. In the current year, the £144,000 restriction in the asset ceiling has been released through the statement of other comprehensive income, and a loss of £144,000 has been recognised in expenses representing the surplus not refunded to EIO.

Group	2017 £000	2016 £000
The amounts recognised in the statement of financial position are determined as follows:		
Present value of funded obligations	(358,159)	(363,854)
Fair value of plan assets	374,017	339,246
	15,858	(24,608)
Restrictions on asset recognised	-	(144)
Net asset in the statement of financial position	15,858	(24,752)
Movements in the net defined benefit pension scheme asset/(liability) recognised in the statement of financial position are as follows:		
At 1 January	(24,752)	8,556
Expense charged to profit or loss*	(5,637)	(3,762)
Amounts recognised in other comprehensive income	43,814	(32,431)
Contributions paid	2,721	2,885
Distribution of surplus	(288)	-
At 31 December	15,858	(24,752)
The amounts recognised through profit or loss are as follows:		
Current service cost	4,400	3,645
Administration cost	620	488
Interest expense on liabilities	9,340	11,064
Interest income on plan assets	(8,723)	(11,435)
Total, included in employee benefits expense	5,637	3,762
The amounts recognised in the statement of other comprehensive income are as follows:		
Return on plan assets, excluding interest income	33,229	28,550
Experience gains on liabilities	8,647	2,739
Gains from changes in demographic assumptions	23,302	158
Losses from changes in financial assumptions	(21,508)	(71,286)
Change in asset ceiling	144	7,408
Total included in other comprehensive income	43,814	(32,431)

* Charge to profit or loss includes £591,000 (2016: £635,000) in respect of member salary sacrifice contributions.

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

	2017 £000	2016 £000
Pension assets	20,036	144
Pension liabilities	(4,178)	(24,896)
	15,858	(24,752)

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

	2017 %	2016 %
Discount rate	2.40	2.60
Inflation (RPI)	3.20	3.30
Inflation (CPI)	2.20	2.30
Future salary increases	4.37	4.47
Future increase in pensions in deferment	2.24	2.34
Future average pension increases (linked to RPI)	3.00	3.00
Future average pension increases (linked to CPI)	1.75	1.15

NOTES TO THE FINANCIAL STATEMENTS

18 Retirement benefit schemes (continued)

Mortality rate	2017	2016
The average life expectancy in years of a pensioner retiring at age 65, at the year end date, is as follows:		
Male	23.0	24.0
Female	24.5	25.6
The average life expectancy in years of a pensioner retiring at age 65, 20 years after the year end date, is as follows:		
Male	24.8	26.3
Female	26.3	27.9

Plan assets are as follows:	2017 £000	2016 £000
Cash and other*	21,406	17,838
Equity instruments		
UK quoted	83,228	85,057
UK unquoted	233	179
Overseas quoted	72,566	78,652
	156,027	163,888
Liability driven investments	47,958	4,004
Debt instruments		
UK public sector quoted - fixed interest	256	263
UK non-public sector quoted - fixed interest	75,432	68,527
UK quoted - index-linked	25,626	38,812
	101,314	107,602
Derivative financial instruments	790	2,143
Property	44,902	42,121
Other	1,620	1,650
	374,017	339,246

*Cash and other includes accrued income, prepayments and other debtors and creditors.

The actual return on plan assets was a gain of £41,952,000 (2016: gain of £39,985,000).

The underlying assets of the liability driven investments 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. For the Group's main plan, the fair value is estimated and approved by the Trustee based on the advice of investment managers. Property is valued annually by independent qualified surveyors using standard industry methodology to determine a fair market value. All other investments either have a quoted price in active markets or are valued based on observable market data.

NOTES TO THE FINANCIAL STATEMENTS

18 Retirement benefit schemes (continued)

	2017	2016
	£000	£000
Plan assets		
At 1 January	339,246	303,045
Interest income	8,723	11,435
Return on plan assets, excluding interest income	33,229	28,550
Pension benefits paid and payable	(9,611)	(6,529)
Contributions paid	2,721	2,885
Employee contributions	61	64
Assets distributed	(288)	-
Administration cost	(64)	(204)
At 31 December	374,017	339,246
Defined benefit obligation		
At 1 January	363,854	287,206
Current service cost	4,400	3,645
Administration cost	556	284
Interest cost	9,340	10,795
Pension benefits paid and payable	(9,611)	(6,529)
Employee contributions	61	64
Experience gains on liabilities	(8,647)	(2,739)
Gains from changes in demographic assumptions	(23,302)	(158)
Losses from changes in financial assumptions	21,508	71,286
At 31 December	358,159	363,854
Asset ceiling		
At 1 January	144	7,283
Effect of interest on the asset ceiling	-	269
Change in asset ceiling	(144)	(7,408)
At 31 December	-	144

History of plan assets and liabilities	2017	2016	2015	2014	2013
	£000	£000	£000	£000	£000
Present value of defined benefit obligations	(358,159)	(363,854)	(287,206)	(291,711)	(270,813)
Fair value of plan assets	374,017	339,246	303,045	310,048	303,359
	15,858	(24,608)	15,839	18,337	32,546
Restrictions on asset recognised	-	(144)	(7,283)	(563)	(978)
Surplus/(deficit)	15,858	(24,752)	8,556	17,774	31,568

The weighted average duration of the defined benefit obligation at the end of the reporting period is 23 years (2016: 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**	
		2017	2016
		£000	£000
Discount rate	Increase by 0.5%	(36,831)	(37,468)
	Decrease by 0.5%	43,202	41,711
Inflation	Increase by 0.5%	26,920	33,959
	Decrease by 0.5%	(26,710)	(26,586)
Salary increase	Increase by 0.5%	5,170	10,660
	Decrease by 0.5%	(4,960)	(9,840)
Life expectancy	Increase by 1 year	14,101	10,031
	Decrease by 1 year	(14,101)	(10,361)

Post-employment medical benefits

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

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

- Interest rate risk: The reserves are assessed using market rates of interest to discount the liabilities and are therefore subject to volatility in the movement of the market rates of interest. A reduction in the market rate of interest would lead to an increase in the reserves required to be held.

- Medical expense 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 Group to the risk of being required to pay over and above the assumed reserve. If future claims experience differs significantly from that experienced in previous years this will increase the risk to the Group.

- Spouse and widows' contributions: The self-insured benefit includes a potential liability for members who pay contributions in respect of their spouse and for widows who pay contributions. There is the possibility that the contributions charged may not be sufficient to cover the medical costs that fall due.

- Mortality risk: If members live longer than expected, the Group is exposed to the expense of medical claims for a longer period, with increased likelihood of needing to pay claims.

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

	2017 £000	2016 £000
Present value of unfunded obligations and net obligations in the statement of financial position	10,932	11,913
Movements in the net obligations recognised in the statement of financial position are as follows:		
At 1 January	11,913	9,193
Total expense charged to profit or loss	307	346
Net actuarial (gains)/losses during the year, recognised in other comprehensive income	(1,184)	2,565
Benefits paid	(104)	(191)
At 31 December	10,932	11,913
The amounts recognised through profit or loss are as follows:		
Interest cost	307	346
Total, included in employee benefits expense	307	346

The weighted average duration of the net obligations at the end of the reporting period is 18.5 years (2016: 18.5 years).

The main actuarial assumptions for the plan are a long-term increase in medical costs of 9.2% (2016: 9.3%) and a discount rate of 2.4% (2016: 2.6%). In the current year an actuarial gain of £1.4m has been recognised due to changes in demographic assumptions as explained in relation to the Group's main defined benefit pension plan. Actuarial losses of £0.2m have been recognised due to changes in financial assumptions in the year. 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	
		2017 £000	2016 £000
Discount rate	Increase by 0.5%	(923)	(1,006)
	Decrease by 0.5%	1,049	1,143
Medical expense inflation	Increase by 0.5%	2,041	2,224
	Decrease by 0.5%	(1,634)	(1,781)
Life expectancy	Increase by 1 year	943	1,028
	Decrease by 1 year	(845)	(921)

19 Property, plant and equipment

Group	Land and buildings £000	Motor vehicles £000	Furniture, fittings and equipment £000	Computer equipment £000	Total £000
Cost or valuation					
At 1 January 2017	3,115	2,512	8,149	6,689	20,465
Additions	-	703	274	1,983	2,960
Disposals	(310)	(665)	(73)	(233)	(1,281)
Exchange differences	-	-	(2)	(15)	(17)
At 31 December 2017	2,805	2,550	8,348	8,424	22,127
Depreciation					
At 1 January 2017	-	1,024	4,764	5,071	10,859
Charge for the year	-	372	868	1,128	2,368
Disposals	-	(463)	(73)	(223)	(759)
Exchange differences	-	-	(13)	(10)	(23)
At 31 December 2017	-	933	5,546	5,966	12,445
Net book value at 31 December 2017	2,805	1,617	2,802	2,458	9,682
Cost or valuation					
At 1 January 2016	3,090	2,643	7,271	6,447	19,451
Additions	-	522	1,595	871	2,988
Disposals	-	(653)	(946)	(773)	(2,372)
Revaluation	25	-	-	-	25
Exchange differences	-	-	229	144	373
At 31 December 2016	3,115	2,512	8,149	6,689	20,465
Depreciation					
At 1 January 2016	-	1,037	4,836	4,932	10,805
Charge for the year	-	408	724	825	1,957
Disposals	-	(421)	(942)	(769)	(2,132)
Exchange differences	-	-	146	83	229
At 31 December 2016	-	1,024	4,764	5,071	10,859
Net book value at 31 December 2016	3,115	1,488	3,385	1,618	9,606

All properties were revalued at 31 December 2015, with the exception of one property which was revalued at 31 December 2016. Valuations were carried out by Cluttons LLP, an external firm of chartered surveyors, using standard industry methodology to determine a fair market value. All properties are classified as level 3 assets.

Movements in market values are taken to the revaluation reserve within equity, net of deferred tax. When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings. Where the market value of an individual property is below original cost, any revaluation movement arising during the year is recognised within net investment return in the statement of profit or loss. There have been no transfers between investment categories in the current year.

The value of land and buildings on a historical cost basis is £3,098,000 (2016: £3,377,000).

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

Included within net book value of motor vehicles is £1,543,000 (2016: £1,359,000) and within net book value of computer equipment is £nil (2016: £nil) in respect of assets held under finance leases.

20 Investment property

Group	2017 £000	2016 £000
Net book value at 1 January	125,284	98,750
Additions - acquisitions	19,540	27,851
Additions - additional expenditure	-	142
Disposals	-	(343)
Fair value gains/(losses) recognised in profit or loss	7,414	(1,116)
Net book value at 31 December	152,238	125,284

The Group's investment properties were last revalued at 31 December 2017 by Cluttons LLP, an external firm of chartered surveyors. Valuations were carried out using standard industry methodology to determine a fair market value. There has been no change in 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 the Group amounted to £7,492,000 (2016: £6,368,000) and is included in net investment return. Other operating and administrative expenses include £802,000 (2016: £423,000) relating to investment property.

21 Financial investments

Financial investments summarised by measurement category are as follows:

	2017		2016	
	Group £000	Parent £000	Group £000	Parent £000
Financial investments at fair value through profit or loss				
Equity securities				
- listed	286,790	-	262,726	-
- unlisted	49,171	6,892	41,155	5,778
Debt securities				
- government bonds	153,908	-	179,227	-
- listed	362,709	-	374,188	-
- unlisted	125	-	139	-
Derivative financial instruments				
- forwards	582	-	2,974	-
- options	2,029	-	-	-
	855,314	6,892	860,409	5,778
Financial investments at fair value through other comprehensive income				
Derivative financial instruments				
- forwards	1,388	-	2,067	
	856,702	6,892	862,476	5,778
Loans and receivables				
Cash held on deposit	9,860	-	9,802	-
Other loans	16	-	17	-
Parent investments in subsidiary undertakings				
Shares in subsidiary undertakings				
- listed	-	3,710	-	2,232
- unlisted	-	49,108	-	49,108
Total financial investments	866,578	59,710	872,295	57,118
Current	399,566	-	392,036	-
Non-current	467,012	59,710	480,259	57,118

22 Derivative financial instruments

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

The Group has also formally designated certain derivatives as a hedge of its net investments in Australia and Canada. A gain of £855,000 (2016: gain of £2,067,000) in respect of these 'hedge' derivatives has been recognised in the hedging reserve within shareholders' equity, as disclosed in note 26. The Group has formally assessed and documented the effectiveness of derivatives that qualify for hedge accounting in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*.

Group	2017		2016		
	Contract/ notional amount £000	Fair value asset £000	Contract/ notional amount £000	Fair value asset £000	Fair value liability £000
Non-hedge derivatives					
Equity/Index contracts					
Futures	-	-	25,167	-	543
Options	114,578	2,029	-	-	-
Foreign exchange contracts					
Forwards (Euro)	93,991	582	78,511	2,974	-
Hedge derivatives					
Foreign exchange contracts					
Forwards (Australian dollar)	46,934	814	39,443	1,954	-
Forwards (Canadian dollar)	34,123	574	29,047	113	-
	289,626	3,999	172,158	5,041	543

Included within Equity/Index contracts are options with a contract/notional value of £17,991,000, and fair value asset of £854,000, which expire in greater than one year. All other derivatives in the current and prior period expire within one year.

The notional amounts above reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of the derivative transactions. They do not reflect current market values of the open positions.

Derivative fair value assets are recognised within financial investments (note 21) and derivative fair value liabilities are recognised within other liabilities (note 31).

Amounts pledged as collateral in respect of derivative contracts are disclosed in note 24.

23 Other assets

	2017		2016	
	Group	Parent	Group	Parent
	£000	£000	£000	£000
Receivables arising from insurance and reinsurance contracts				
- due from contract holders	28,815	-	25,551	-
- due from agents, brokers and intermediaries	49,210	-	45,055	-
- due from reinsurers	14,462	-	15,631	-
Other receivables				
- accrued interest and rent	4,925	-	5,370	-
- other prepayments and accrued income	4,364	113	5,630	311
- amounts owed by related parties	90	4,142	70	559
- other debtors	25,549	-	25,818	-
	127,435	4,255	123,125	870
Current	124,183	255	119,880	870
Non-current	3,252	4,000	3,245	-

The Group has recognised a charge of £27,000 (2016: charge of £49,000) in other operating and administrative expenses in the statement of profit or loss for the impairment of its trade and other receivables during the year.

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

Movement in the Group allowance for doubtful debts	2017	2016
	£000	£000
Balance at 1 January	154	163
Movement in the year	34	(9)
Balance at 31 December	188	154

Included within trade receivables of the Group is £3,781,000 (2016: £6,018,000) overdue but not impaired, of which £3,401,000 (2016: £5,414,000) is not more than three months overdue at the reporting date.

24 Cash and cash equivalents

	2017		2016	
	Group	Parent	Group	Parent
	£000	£000	£000	£000
Cash at bank and in hand	86,980	6,319	73,478	3,357
Short-term bank deposits	31,293	-	39,239	-
	118,273	6,319	112,717	3,357

Included within short-term bank deposits of the Group are cash deposits of £nil (2016: £1,956,000) pledged as collateral by way of cash margins on open derivative contracts and cash to cover derivative liabilities.

Included within cash at bank and in hand are cash deposits of £758,000 (2016: £2,612,000) pledged as collateral by way of cash calls from reinsurers.

25 Called up share capital

	2017 £000	2016 £000
Issued, allotted and fully paid		
Ordinary share capital:		
20,000,000 shares of £1 each	20,000	20,000

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

26 Translation and hedging reserve

Group	Translation reserve £000	Hedging reserve £000	Total £000
At 1 January 2017	19,664	1,844	21,508
Losses on currency translation differences	(1,642)	-	(1,642)
Gains on net investment hedges	-	855	855
Attributable tax	-	(73)	(73)
At 31 December 2017	18,022	2,626	20,648
At 1 January 2016	6,182	-	6,182
Gains on currency translation differences	13,482	-	13,482
Gains on net investment hedges	-	2,067	2,067
Attributable tax	-	(223)	(223)
At 31 December 2016	19,664	1,844	21,508

The translation reserve arises on consolidation of the Group'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.

27 Non-controlling interests

Non-controlling interests comprise 97.5% (2016: 98.5%) of the 106,450,000 (2016: 106,450,000) 8.625% Non-Cumulative Irredeemable Preference shares (NcIPs) in Ecclesiastical Insurance Office plc.

Through the course of 2017, the Parent acquired NcIPs with a nominal value of £1,050,000 for a cash consideration of £1,478,000, paid to minority interest shareholders.

Holders of the NcIPs are not entitled to receive notice of, or to attend, or vote at any general meeting of Ecclesiastical Insurance Office plc unless at the time of the notice convening such meeting, the dividend on such shares which is most recently payable on such shares shall not have been paid in full, or where a resolution is proposed varying any of the rights of such shares, or for the winding up of the company.

28 Insurance liabilities and reinsurance assets

Group	2017 £000	2016 £000
Gross		
Claims outstanding	509,319	540,864
Unearned premiums	171,788	160,288
Long-term business provision	216,206	182,352
Total gross insurance liabilities	897,313	883,504
Recoverable from reinsurers		
Claims outstanding	102,635	115,179
Unearned premiums	56,573	50,753
Long-term business provision	128,065	90,452
Total reinsurers' share of insurance liabilities	287,273	256,384
Net		
Claims outstanding	406,684	425,685
Unearned premiums	115,215	109,535
Long-term business provision	88,141	91,900
Total net insurance liabilities	610,040	627,120
Gross insurance liabilities		
Current	339,299	319,584
Non-current	558,014	563,920
Reinsurance assets		
Current	120,434	102,151
Non-current	166,839	154,233

(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. 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.

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:

	Discount rate		Mean term of discounted liabilities	
Geographical territory	2017	2016	2017	2016
UK and Ireland	1.0% to 2.5%	0.7% to 2.7%	16	16
Canada	1.9% to 2.6%	1.1% to 3.1%	11	14
Australia	2.5%	2.5%	4	4

The above rates of interest are based on government bond yields of the relevant currency and term at the reporting date. Adjustments are made, where appropriate, to reflect portfolio assets held and to allow for future investment expenses. At the year end the undiscounted gross outstanding claims liability was £549,264,000 for the Group (2016: £581,958,000).

The impact of discount rate changes on the outstanding claims liability is presented within net investment return (note 7).

At 31 December 2017, it is estimated that a fall of 1% in the discount rates used would increase the Group's net outstanding claims liabilities by £15,683,000 (2016: £17,482,000). 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:

		2017		2016	
		Gross	Net	Gross	Net
		£000	£000	£000	£000
Liability	- UK	22,600	21,300	24,700	22,600
	- Overseas	10,600	8,800	10,100	8,600
Property	- UK	6,200	3,700	7,100	4,000
	- Overseas	6,300	2,500	6,500	2,400
Motor	- UK	1,200	500	1,500	700

28 Insurance liabilities and reinsurance assets (continued)

(viii) Claims development tables

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

Group

Estimate of gross ultimate claims

	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	Total £000
At end of year	56,420	74,742	84,476	82,095	100,612	81,725	61,901	46,464	51,738	50,736	
One year later	53,552	59,807	75,550	76,371	88,046	80,027	50,571	43,582	46,073		
Two years later	47,643	55,250	62,239	71,543	78,196	69,860	48,327	40,337			
Three years later	44,658	57,134	66,422	68,587	72,516	66,192	45,495				
Four years later	40,433	55,695	61,330	60,841	67,980	60,174					
Five years later	37,546	58,631	62,074	59,914	62,712						
Six years later	37,864	54,942	61,871	57,950							
Seven years later	37,289	57,729	60,155								
Eight years later	38,014	57,626									
Nine years later	37,157										
Current estimate of ultimate claims	37,157	57,626	60,155	57,950	62,712	60,174	45,495	40,337	46,073	50,736	518,415
Cumulative payments to date	(32,455)	(49,112)	(52,223)	(48,764)	(49,195)	(38,198)	(14,410)	(8,043)	(5,339)	(1,666)	(299,405)
Outstanding liability	4,702	8,514	7,932	9,186	13,517	21,976	31,085	32,294	40,734	49,070	219,010
Effect of discounting											(12,202)
Present value											206,808
Discounted liability in respect of earlier years											126,323
Total discounted gross liability (for liability classes) included in insurance liabilities in the statement of financial position											333,131

Estimate of net ultimate claims

	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	Total £000
At end of year	51,795	64,476	73,218	75,302	88,247	76,729	59,633	42,739	47,402	45,920	
One year later	48,432	53,700	64,796	72,336	79,272	66,475	47,690	40,397	41,631		
Two years later	44,498	50,805	57,758	68,057	73,735	60,075	47,428	37,740			
Three years later	42,524	50,168	59,353	66,822	69,837	55,710	41,494				
Four years later	39,321	50,062	55,975	60,314	65,872	51,482					
Five years later	37,208	49,879	57,012	59,521	60,800						
Six years later	37,606	48,960	57,070	57,641							
Seven years later	37,089	52,254	55,778								
Eight years later	37,996	52,330									
Nine years later	37,141										
Current estimate of ultimate claims	37,141	52,330	55,778	57,641	60,800	51,482	41,494	37,740	41,631	45,920	481,957
Cumulative payments to date	(32,455)	(44,632)	(47,906)	(48,547)	(47,544)	(30,342)	(14,404)	(8,043)	(5,339)	(1,666)	(280,878)
Outstanding liability	4,686	7,698	7,872	9,094	13,256	21,140	27,090	29,697	36,292	44,254	201,079
Effect of discounting											(12,002)
Present value											189,077
Discounted liability in respect of earlier years											115,403
Total discounted net liability (for liability classes) included in insurance liabilities in the statement of financial position											304,480

(b) Long-term insurance contracts

(i) Assumptions

Where the Group's liability under the funeral plan is linked to performance of a with-profits life assurance plan provided by an independent, third party, life insurance company, liabilities are based on the Group's estimate of the surrender value of the with-profits life assurance policy.

Where the Group's liability under the funeral plan is linked to inflation, the most significant assumptions in determining long-term business claims 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:

	2017	2016
UK and overseas government bonds: non-linked	0.71%	0.75%
UK and overseas government bonds: index-linked	-1.85%	-1.83%
Corporate debt instruments: index-linked	-1.35%	-1.29%

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 £3.20 per annum (2016: £2.90 per annum). As expenses are not incurred proportionally to policy numbers and are more fixed in nature, a number of expenses are reserved for in a separate exercise. A reserve for these expenses is held at £6.5 million (2016: £6.1 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 4.04% per annum (2016: 4.21%).

Tax

It has been assumed that tax legislation and rates applicable at 1 January 2018 will continue to apply. All in-force business is classed as protection business and is expected to be taxed on a profits basis.

(ii) Changes in assumptions

Projected investment returns have been revised in line with the changes in the actual yields of the underlying assets. As a result, liabilities have increased by £0.4 million (2016: £10.9 million increase).

Changes to unit renewal expense assumptions (described in (b)(i) above), was a £0.5 million increase (2016: £0.6m increase).

(iii) Sensitivity analysis

The sensitivity of profit before tax to changes in the key assumptions used to calculate the long-term 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	
		2017	2016
Variable		£000	£000
Deterioration in annuitant mortality	+10%	900	900
Improvement in annuitant mortality	-10%	(1,100)	(1,100)
Increase in fixed interest/cash yields	+1% pa	(200)	(100)
Decrease in fixed interest/cash yields	-1% pa	-	(200)
Worsening of base renewal expense level	+10%	(700)	(700)
Improvement in base renewal expense level	-10%	700	700
Increase in expense inflation	+1% pa	(1,100)	(1,100)
Decrease in expense inflation	-1% pa	900	900

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 2017	**540,864**	(115,179)	425,685
Cash (paid)/received for claims settled in the year	(148,717)	43,676	(105,041)
Change in liabilities/reinsurance assets			
- arising from current year claims	172,308	(58,721)	113,587
- arising from prior year claims	(54,398)	26,525	(27,873)
- change in discount rate	1,278	165	1,443
Exchange differences	(2,016)	899	(1,117)
At 31 December 2017	509,319	(102,635)	406,684
Provision for unearned premiums			
At 1 January 2017	160,288	(50,753)	109,535
Increase in the period	172,518	(56,875)	115,643
Release in the period	(160,149)	50,824	(109,325)
Exchange differences	(869)	231	(638)
At 31 December 2017	171,788	(56,573)	115,215
Long-term business provision			
At 1 January 2017	182,352	(90,452)	91,900
Effect of new business in the year	43,231	(43,231)	-
Effect of claims during the year	(15,231)	8,885	(6,346)
Changes in assumptions	647	(62)	585
Change in discount rate	437	(41)	396
Other movements	4,770	(3,164)	1,606
At 31 December 2017	216,206	(128,065)	88,141
Claims outstanding			
At 1 January 2016	551,571	(120,753)	430,818
Cash (paid)/received for claims settled in the year	(184,846)	64,907	(119,939)
Change in liabilities/reinsurance assets			
- arising from current year claims	172,164	(58,209)	113,955
- arising from prior year claims	(34,475)	7,045	(27,430)
- change in discount rate	7,470	187	7,657
Exchange differences	28,980	(8,356)	20,624
At 31 December 2016	540,864	(115,179)	425,685
Provision for unearned premiums			
At 1 January 2016	153,697	(49,987)	103,710
Increase in the period	156,245	(49,673)	106,572
Release in the period	(159,171)	51,496	(107,675)
Exchange differences	9,517	(2,589)	6,928
At 31 December 2016	160,288	(50,753)	109,535
Long-term business provision			
At 1 January 2016	85,422	-	85,422
Acquisition	59,429	(59,429)	-
Effect of new business in the year	27,374	(27,374)	-
Effect of claims during the year	(11,868)	5,616	(6,252)
Changes in assumptions	1,231	(502)	729
Change in discount rate	18,503	(7,548)	10,955
Other movements	2,261	(1,215)	1,046
At 31 December 2016	182,352	(90,452)	91,900

29 Provisions for other liabilities and contingent liabilities

Group	Regulatory and legal provisions £000	Contingent consideration £000	Other provisions £000	Total £000
At 1 January 2017	3,796	-	2,430	6,226
Acquisition	-	1,250	-	1,250
Additional provisions	3,032	-	152	3,184
Used during year	(2,899)	-	(28)	(2,927)
Not utilised	-	(200)	(12)	(212)
Exchange differences	-	-	(1)	(1)
At 31 December 2017	3,929	1,050	2,541	7,520
Current	3,354	750	798	4,902
Non-current	575	300	1,743	2,618

Regulatory provisions
The Group operates in the financial services industry and is subject to regulatory requirements in the normal course of business, including contributing towards any levies raised on UK general and long-term 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, the Group recognises that it has provided, and continues to provide, advice and services across a wide spectrum of regulated activities. The Group therefore considers it 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 that may be upheld.

Contingent consideration
The provision for contingent consideration relates to the acquisition of certain assets of Funeral Planning Services Limited as disclosed in note 15.

Other provisions
The provision for other costs relates to costs in respect of dilapidations and the amount needed to cover the future costs to administer the claims on the pre-paid funeral plans were the Group to cease to write new funeral plan business.

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 2016	30,382	(119)	4,491	(2,421)	32,333
Charged/(credited) to profit or loss	1,920	(129)	(832)	322	1,281
(Credited)/charged to profit or loss					
- resulting from reduction in tax rate	(1,390)	(196)	125	76	(1,385)
(Credited)/charged to other comprehensive income	-	(6,041)	-	19	(6,022)
Charged/(credited) to other comprehensive income					
- resulting from reduction in tax rate	-	197	-	(5)	192
Exchange differences	(19)	-	-	(174)	(193)
At 31 December 2016	30,893	(6,288)	3,784	(2,183)	26,206
Charged/(credited) to profit or loss	3,503	(531)	(790)	315	2,497
Charged to other comprehensive income	-	7,628	-	97	7,725
Exchange differences	3	-	-	-	3
At 31 December 2017	34,399	809	2,994	(1,771)	36,431

Parent

The deferred tax liability, shown below, arises on unrealised gains on investments. The increase of £166,000 (2016: £104,000 increase), net of an £nil decrease (2016: £19,000 decrease) resulting from the reduction in tax rate, is recognised in the statement of profit or loss in the year.

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. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2017 Group £000	2017 Parent £000	2016 Group £000	2016 Parent £000
Deferred tax liabilities	38,975	599	29,281	433
Deferred tax assets	(2,544)	-	(3,075)	-
	36,431	599	26,206	433
Current	(975)	-	(1,466)	-
Non-Current	37,406	599	27,672	433

The Group has unused tax losses of £16,952,000 (2016: £18,695,000) arising from long-term 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 due to the unpredictability of future profit streams.

31 Other liabilities

	2017 Group £000	2017 Parent £000	2016 Group £000	2016 Parent £000
Creditors arising out of direct insurance operations	1,693	-	1,464	-
Creditors arising out of reinsurance operations	20,662	-	18,698	-
Derivative liabilities	-	-	543	-
Other creditors	33,838	-	32,844	-
Amounts owed to related parties	1	125	-	-
Accruals	26,616	55	23,264	51
	82,810	180	76,813	51
Current	82,480	180	76,479	51
Non-current	330	-	334	-

Derivative liabilities are in respect of equity futures contracts and are detailed in note 22.

32 Commitments

Capital commitments
At the end of the current and prior year, the Group and Parent had no capital commitments.

Operating lease commitments
Amounts receivable
The Group leases premises under non-cancellable operating lease agreements. The future aggregate minimum lease rentals receivable are as follows:

	2017 £000	2016 £000
Within 1 year	7,783	6,857
Between 1 & 5 years	26,911	24,218
After 5 years	37,799	35,620
	72,493	66,695

Amounts payable
The Group leases premises and equipment under non-cancellable operating lease agreements. The future aggregate minimum lease payments are as follows:

	2017 £000	2016 £000
Within 1 year	4,052	3,886
Between 1 & 5 years	12,139	12,789
After 5 years	3,442	5,020
	19,633	21,695
Operating lease rentals charged to profit or loss during the year	3,914	3,994

33 Related undertakings

Ultimate parent company and controlling party

The Company is a wholly-owned subsidiary of Allchurches Trust Limited, a company incorporated in England. Its ultimate parent and controlling company is Allchurches Trust Limited, for which copies of the financial statements are available from the registered office as shown on page 2. The parent companies of the smallest and largest groups for which group financial statements are drawn up are Ecclesiastical Insurance Group plc and Allchurches Trust Limited, respectively.

Related undertakings

The Company's interest in related undertakings at 31 December 2017 is as follows:

Company	Company Registration Number	Share Capital	Holding of shares by Company	Group	Activity
Subsidiary undertakings					
Incorporated in the United Kingdom					
Ecclesiastical Insurance Office plc *	24869	Ordinary	100%	-	Insurance
		Preference	2.5%	-	
Ecclesiastical Investment Management Limited * ^	1811698	Ordinary	100%	-	Dormant company
Ecclesiastical Life Limited *	0243111	Ordinary	-	100%	Life insurance
Ecclesiastical Financial Advisory Services Limited *	2046087	Ordinary	-	100%	Independent financial advisory
Ecclesiastical Planning Services Limited *	02644860	Ordinary	100%	-	Funeral plan administration
Ecclesiastical Underwriting Management Limited *	02368571	Ordinary	100%	-	Insurance management services
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
Farmers & Mercantile Insurance Brokers Limited **	03142714	Ordinary	-	100%	Insurance agents and brokers
Lycett, Browne-Swinburne & Douglass Limited **	00706042	Ordinary	-	100%	Insurance agents and brokers
Lycetts Financial Services Limited **	02057974	Ordinary	-	100%	Insurance agents and brokers
Lycetts Risk Management Services Limited **	10906990	Ordinary	-	100%	Risk management services
Lycetts Holdings Limited **	05866203	Ordinary	100%	-	Investment holding 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 Insurance Services Pty Limited *** †	162612286	Ordinary	-	100%	Dormant company

* Registered office: Beaufort House, Brunswick Road, Gloucester, GL1 1JZ, United Kingdom

** Registered office: Milburn House, Dean Street, Newcastle upon Tyne, NE1 1PP, 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

A 26% holding in the ordinary share capital of Regis Mutual Management Limited (Company No. 4194000), an insurance management company, was disposed of during the year and was included within financial investments in the prior year.

34 Related party transactions

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

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

	Parent £000	Subsidiaries £000	Other related parties £000
2017			
Group			
Trading, investment and other income, including recharges, and amounts received	**253**	-	**1,060**
Trading, investment and other expenditure, including recharges, and amounts paid	-	-	**454**
Amounts owed by related parties	-	-	**89**
Amounts owed to related parties	-	-	1
Parent			
Trading, investment and other income, including recharges, and amounts received	-	**8,122**	**79**
Trading, investment and other expenditure, including recharges, and amounts paid	-	**4,345**	**95**
Amounts owed by related parties	-	**4,175**	**81**
Amounts owed to related parties	-	**29,583**	-
2016			
Group			
Trading, investment and other income, including recharges, and amounts received	167	-	1,051
Trading, investment and other expenditure, including recharges, and amounts paid	-	-	96
Amounts owed by related parties	-	-	70
Parent			
Trading, investment and other income, including recharges, and amounts received	-	6,296	112
Trading, investment and other expenditure, including recharges, and amounts paid	-	343	96
Amounts owed by related parties	-	493	66
Amounts owed to related parties	-	23,458	-

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

Amounts owed to related parties by the Parent includes borrowings of £29,458,000 (2016: £23,458,000) and amounts classified within other liabilities of £125,000 (2016: £nil) disclosed in note 31.

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

Charitable grants paid to the Group's parent undertaking are disclosed in note 14. Contributions paid to and amounts received from the Group's defined benefit pension schemes are disclosed in note 18.

35 Reconciliation of Alternative Performance Measures

The Group uses alternative performance measures (APM) in addition to the figures which are prepared in accordance with IFRS. Regulatory capital, combined operating ratio (COR), net expense ratio (NER) and net inflows are APM. These measures are commonly used in the industries we operate in and we believe provide useful information and enhance the understanding of our results.

Users of the accounts should be aware that similarly titled APM reported by other companies may be calculated differently. For that reason, the comparability of APM across companies might be limited.

In line with the European Securities and Markets Authority guidelines, we provide a reconciliation of the combined operating ratio and net expense ratio to its most directly reconcilable line item in the financial statements. Regulatory capital and net inflows to funds managed by the Group's subsidiary, EdenTree Investment Management Limited, do not have an IFRS equivalent. Regulatory capital is covered in note 4(i).

		2017						
		Insurance		Inv'ment return	Inv'ment mngt	Broking and Advisory	Corporate costs	Total
		General	Long-term					
		£000	£000	£000	£000	£000	£000	£000
Revenue								
Gross written premiums		342,889	43,216	-	-	-	-	386,105
Outward reinsurance premiums		(129,387)	(43,188)	-	-	-	-	(172,575)
Net change in provision for unearned premiums		(6,318)	-	-	-	-	-	(6,318)
Net earned premiums	[1]	207,184	28	-	-	-	-	207,212
Fee and commission income	[2]	40,551	-	-	11,685	32,058	-	84,294
Other operating income		1,935	-	-	-	-	-	1,935
Net investment return		-	2,739	70,245	(41)	753	-	73,696
Total revenue		249,670	2,767	70,245	11,644	32,811	-	367,137
Expenses								
Claims and change in insurance liabilities		(117,910)	(47,569)	-	-	-	-	(165,479)
Reinsurance recoveries		32,196	45,566	-	-	-	-	77,762
Fees, commissions and other acquisition costs	[3]	(64,619)	(16)	-	(982)	(4)	-	(65,621)
Other operating and administrative expenses	[4]	(72,271)	(374)	(3,276)	(8,945)	(29,548) [5]	(14,783)	(129,197)
Total operating expenses		(222,604)	(2,393)	(3,276)	(9,927)	(29,552)	(14,783)	(282,535)
Operating profit	[6]	27,066	374	66,969	1,717	3,259	(14,783)	84,602
Finance costs		(96)	-	-	-	-	-	(96)
Profit before tax		26,970	374	66,969	1,717	3,259	(14,783)	84,506
Underwriting profit	[6]	27,066						
Combined operating ratio		86.9%						
Net expenses (= [2] + [3] + [4] + [5])	[7]	(111,122)						
Net expense ratio		54%						

The underwriting profit of the Group is defined as the operating profit of the general insurance business.

The Group uses the industry standard net combined operating ratio 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 net expense ratio expresses total underwriting and corporate expenses as a proportion of net earned premiums. It is calculated as - [7] / [1].

35 Reconciliation of Alternative Performance Measures (continued)

	2018						
	Insurance		Inv'ment return	Inv'ment mngt	Broking and Advisory	Corporate costs	Total
	General £000	Long-term £000	£000	£000	£000	£000	£000
Revenue							
Gross written premiums	310,061	26,783	-	-	-	-	336,844
Outward reinsurance premiums	(114,041)	(26,706)	-	-	-	-	(140,747)
Net change in provision for unearned premiums	1,103	-	-	-	-	-	1,103
Net earned premiums [1]	197,123	77	-	-	-	-	197,200
Fee and commission income [2]	34,961	-	-	10,227	29,613	-	74,801
Other operating income	843	-	-	-	-	-	843
Net investment return	-	1,290	53,225	54	839	-	55,408
Total revenue	232,927	1,367	53,225	10,281	30,452	-	328,252
Expenses							
Claims and change in insurance liabilities	(137,689)	(30,532)	-	-	-	-	(168,221)
Reinsurance recoveries	51,164	28,838	-	-	-	-	80,002
Fees, commissions and other acquisition costs [3]	(60,653)	(17)	-	(908)	370	-	(61,208)
Other operating and administrative expenses [4]	(65,674)	(308)	(2,864)	(7,782)	(30,115) [5]	(10,134)	(116,877)
Total operating expenses	(212,852)	(2,019)	(2,864)	(8,690)	(29,745)	(10,134)	(266,304)
Operating profit [6]	20,075	(652)	50,361	1,591	707	(10,134)	61,948
Finance costs	(93)	-	-	(4)	(4)	-	(101)
Profit before tax	19,982	(652)	50,361	1,587	703	(10,134)	61,847
Underwriting profit [6]	20,075						
Combined operating ratio	89.8%						
Net expenses (= [2] + [3] + [4] + [5]) [7]	(101,500)						
Net expense ratio	51%						