

Company Number 1718196

# ECCLESIASTICAL

ECCLESIASTICAL INSURANCE GROUP plc  
2019 ANNUAL REPORT

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# DIRECTORS AND COMPANY INFORMATION

## Directors

- \* David Henderson *Chairman*
- \* François-Xavier Boisseau  
Denise Cockrem *Group Chief Financial Officer*  
Mark Hews *Group Chief Executive*
- \* Sir Stephen Lamport
- \* Neil Maidment
- \* Andrew McIntyre
- \* Chris Moulder *Senior Independent Director*
- \* Caroline Taylor  
S. Jacinta Whyte *Deputy Group Chief Executive*
- \* The Very Reverend Christine Wilson
- \* Angus Winther

## 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 2019.

## **Group Chief Executive's Review**

This Annual Report and Accounts of the Ecclesiastical Insurance Group is presented against a period of significant social and economic uncertainty as a result of the Covid-19 pandemic. We recognise, in commenting on the Group's performance in 2019, the great difficulties that are being experienced worldwide at this time.

Since the end of February 2020 the Group has been preparing itself for a situation difficult for anyone to have anticipated, brought about by the Covid-19 pandemic. As the threats from the pandemic were emerging, the Board's primary focus has been on ensuring the safety of our staff and their families and responding to the needs of our customers. We have looked closely at our financial robustness and liquidity and it has been reassuring to see Ecclesiastical has the operational and financial resilience to continue to make progress on our journey to become the most trusted and ethical specialist financial services group.

## ***A unique business with a clear and caring purpose***

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

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

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

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

## ***Building a Movement for Good, thanks to your support***

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

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

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

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

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

## ***Always learning from our customers***

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

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

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

# STRATEGIC REPORT

However, there have been a few claims relating to historical sexual abuse over 30 years ago, which have been difficult to handle to the satisfaction of all concerned. I am speaking here of claims for physical and sexual abuse which represent a very small percentage of our total claims (less than 0.4%), but are particularly traumatic and challenging for victims and survivors and must therefore be conducted with sensitivity, empathy and compassion. Sadly for a very small number of survivors, the experience of bringing a claim has been a difficult and painful process, not helped by the adversarial nature of the civil justice system within which we must all work.

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

That said, it is clearly impossible to turn back time and undo the damage of childhood abuse, and so we all continue to learn how best to support and help those who have experienced it within the Church or elsewhere. Moreover we encourage and support the Church and many of our customers on the implementation of strong safeguarding practices so that childhood abuse is prevented in the first place.

Striving for continual improvement is essential for any business, but is vital for one with a purpose like ours. I am delighted that these efforts have led to external recognition on a wide front.

## ***A sustainable and resilient business***

I am pleased to report that we concluded 2019 in a position of financial strength, reporting a pre-tax profit of £70.8m, (2018: £16.4m) and have benefited from the more favourable investment markets in 2019. This robust performance has not only enabled us to make a £30m charitable grant, it has further strengthened our capital position which provides us with both security today and flexibility for the future.

Taking a long-term perspective together with maintaining our strong solvency ratio continues to enable us to hold a greater proportion of higher risk investment assets which are designed to deliver greater returns. Notwithstanding the uncertainty in the external environment which affected the markets during the latter parts of 2018 and the majority of 2019, our long-term investment approach remained consistent resulting in investment income in the year of £34.8m (2018: £35.5m) and fair value gains of £53.3m (2018: fair value losses of £35.0m). Underwriting results in the year were strong across the group at £20.0m (2018: £29.2m) and reflected the anticipated reduction in reserves releases compared with prior year.

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

In early March 2020 it became apparent that the Covid-19 pandemic would pose a serious challenge to everyone. Our crisis management team immediately started coordinating our response across the entire business, using Government advice and with the primary objective of protecting our employees and ensuring the needs of our customers would continue to be met. As time passed it became apparent that the additional hygiene rules and cleaning routines would no longer be enough. Those that could work from home were instructed to and supported with the right setup. We now only have a small number of employees using our offices and only where they are providing critical business needs.

We have reviewed, and will continue to review our financial position. We ended 2019 in a position of financial strength but like many other businesses, we are not immune to the market disruption as a result of Covid-19. Our long-term investment perspective has helped to ensure we continue to operate in excess of our capital requirements and solvency risk appetite and are able to both withstand rare but significant economic shocks such as this and the potential for further falls in equity markets. The Group has sufficient liquid resources and is well placed to mitigate against further risk or deterioration in the markets.

We firmly believe the Group is in a strong position. Ecclesiastical is fully operational and continues to serve our customers, brokers and partners to provide them with the services, help and advice they need. To support those most in need during this crisis, we have signed the C19 Business Pledge. This includes a wide range of measures to support our customers, communities and our employees through this turbulent time and includes giving over £1m to help support communities and charities facing financial difficulties. We are also mindful of the need to respond quickly to those policies that give cover in the current scenario and are supporting our customers under difficult circumstances. We recognise none of what we have done to respond to Covid-19 would have been achieved without the support and dedication of everyone at Ecclesiastical.

# STRATEGIC REPORT

## **General insurance**

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

## **United Kingdom and Ireland**

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

We anticipate this reduction to continue, with a greater contribution coming from our current year underwriting performance. The underwriting result on the property account was similar to 2018 due to an absence of large weather events, although we experienced an increase in theft and subsidence claims during 2019. The current year loss ratios are better than expectations due to the absence of catastrophe events. The underwriting result from the liability account continues to perform favourably.

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

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

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

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

Our strategy over the medium term is to deliver moderate GWP growth, while maintaining our strong underwriting discipline and our philosophy to seek profit over growth. We will continue to deepen our specialist capabilities through investment in technology and innovation, and to provide propositions that our customers value and excellent service.

## **Ansvar Australia**

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

## **Canada**

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

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

## **Other insurance operations**

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

<sup>1</sup> Alternative performance measure, refer to note 38 to the financial statements.

# STRATEGIC REPORT

## ***Investments***

We saw a far less volatile end to 2019 compared with 2018, with strong returns in UK and worldwide stock markets resulting in a net investment return of £75.7m (2018: £4.7m). Income from financial assets remained stable at £26.2m (2018: £27.2m) reflecting the continued low interest rate environment and downwards pressure on yields. Fair value gains on financial instruments of £53.3m contrasted with losses of £35.0m in 2018, as both equities and bonds strengthened over the year, with the UK market in particular benefiting latterly from renewed confidence. In spite of this strong 2019 result, there remains as ever political and economic uncertainty which could impact the performance of our investments, and as for all businesses, we are subject to the consequences of disruption that events such as the current Coronavirus outbreak can have on financial markets. Nevertheless we remain confident in our long-term value investment philosophy, and are relatively defensively positioned and well diversified across a broad range of asset classes.

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

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

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

## ***Investment management***

The Group's investment management business, EdenTree, continued to develop its presence in the charity and institutional markets.

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

Fee income was marginally ahead at £12.8m (2018: £12.6m). Overheads have increased by 13% in the year primarily from our continued investment in people and technology to support delivery of future growth plans. As a result, our investment management business reported a loss before tax of £0.4m (2018: profit before tax £0.9m).

## ***Long-term insurance***

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

## ***Broking and advisory***

The broking and advisory business comprises our insurance broker businesses South Essex Insurance Brokers Limited (SEIB) and Lycetts Holdings Limited and its subsidiaries (Lycetts), our small financial advisory business Ecclesiastical Financial Advisory Services Limited (EFAS), our prepaid funeral plan distribution and administration business Ecclesiastical Planning Services Limited (EPSL), and our risk advisory business Ansvar Risk Management Services (ARMS) and Lycetts Risk Management Services, a subsidiary of Lycetts Holdings Limited.

SEIB reported an increase in profit before tax to £2.6m (2018: £2.4m). EFAS reported a loss of £0.4m in the year (2018: £0.2m loss). Lycetts' reported a profit before tax of £1.1m (2018: breakeven result) and EPSL's loss reported was £1.7m (2018: profit before tax £0.5m) and ARMS a loss of £0.1m (2018: loss of £0.2m). Broking and Advisory reported an overall pre tax loss of £2.2m (2018: profit of £2.5m).

## ***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.

# STRATEGIC REPORT

The Group and Company considers Covid-19 a new emerging risk and one which impacts the existing principal risks related to market and investment risk and operational risk. The Covid-19 pandemic and corresponding concerns about the impact of government intervention has increased market volatility and led to a reduction in equity asset values. Also in response to Covid-19 all areas of the Group have adapted to working in a remote environment. Whilst this presents an increased level of operational risk, all the businesses continue to operate effectively. Further information on these principal risks can be found in the Risk Management Report within the Strategic Report of the accounts of Ecclesiastical Insurance Office plc.

## ***Our strategy for a sustainable future***

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

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

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

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

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

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

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

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

## ***Section 172 statement***

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

## ***Stakeholder engagement***

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

The Board has identified its stakeholders and associated engagement mechanisms. Employees, customers, shareholders, suppliers, reinsurers, external auditors, regulators, credit rating agencies, banks and other creditors, trade unions and community groups have been identified as current stakeholders.



# STRATEGIC REPORT

## ***Shareholder engagement***

Allchurches Trust Limited (Company No. 1043742) owns the entire issued Ordinary share capital of the Company.

Protocols for the exchange of information between Allchurches Trust Limited and Ecclesiastical Insurance Group plc and its subsidiaries (including Ecclesiastical Insurance Office plc its principal subsidiary) are in place and cover performance, operations and financial position. There is at least one "Common Director" (i.e. a Director who is a member of the Boards of Allchurches Trust Limited, the company and Ecclesiastical Insurance Office plc) who is expected to attend every Board Meeting. Tim Carroll and Chris Moulder (until the former's resignation from the company on 31 December 2019) were appointed as "Common Directors". Sir Stephen Lamport was appointed as a "Common Director" on 23 March 2020. The Common Directors present a summary of highlights from Allchurches Trust Limited Board meetings to the Directors. There is also engagement between respective Board and Committee Chairmen and the Group Chief Executive Officer. Moreover regular dialogue takes place on Allchurches Trust Limited's expectations of the Group, strategy for the development of business and the grant from the Group.

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

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

When determining whether to make a distribution in the form of a grant to the company's parent undertaking, Allchurches Trust Limited (usually in August and November), the Board considers advice from the Group Chief Financial Officer. A key area for the Board's deliberation is the Company's capital position and the affordability of the grant based on a range of stressed circumstances as well as the views of the Chairman of Allchurches Trust Limited.

## ***Other matters and stakeholder engagement***

Ecclesiastical Insurance Group plc is an investment holding company therefore consideration of matters relating to employees, customers, suppliers, community, environment and reputation are undertaken at a subsidiary Board level.

The Group approach is set out in the 172 Statement contained in the 2019 Annual Report and Accounts of Ecclesiastical Insurance Office plc.

By order of the Board



Mark Hews

*Group Chief Executive, Ecclesiastical Insurance Group plc*

5 May 2020

# 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 36 to the financial statements.

## Ownership

At 5 May 2020 the entire issued equity capital of the Company was owned by Allchurches Trust Limited.

## Board of directors

The directors of the Company at the date of this report are stated on page 2. John Hylands resigned as a director and Chairman of the Company on 19 March 2019 and was succeeded by David Henderson as Chairman. Tim Carroll resigned as a NED on 31 December 2019. Francois Boisseau and Angus Winther were appointed as NEDs on 19 March 2019. Neil Maidment was appointed as a NED on 6 January 2020 and Sir Stephen Lamport was appointed as a NED on 23 March 2020.

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

All directors who have served since the last AGM will be proposed for re-election at the forthcoming AGM. Mrs Cockrem, Mr Maidment and Sir Stephen 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 2019. There has been no change in these interests since the end of the financial year to the date of this report.

The following director of the Company, and their connected persons, held Preference shares in the capital of EIO plc at 31 December 2019:

Director	Nature of Interest	Number of EIO Non-Cumulative Irredeemable Preference Shares held	
		31.12.2019	31.12.2018
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. On 18 March 2020 a connected person to Mrs Cockrem purchased 16,000 Non-Cumulative Irredeemable Preferences Shares in EIO.

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 2019 (2018: £nil).

## Charitable and political donations

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

In line with the Group's policy no political donations have been made in the current or prior year.

## Employees

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

- Caroline Taylor was appointed as the designated non-executive director for employee engagement on 4 February 2020 to replace Dean Wilson. The designated non-executive director is briefed on employee survey results and feedback and reports relevant findings to the Board;

# DIRECTORS' REPORT

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

Throughout the employee lifecycle from recruitment onwards, we carefully consider adjustments to our processes and practices and look for solutions to remove barriers and enable those employees with disabilities. When needed, we engage with third party and Occupational Health specialists who provide us with expert advice and ensure we are offering the best support we can.

Through our adjusted work approach we provide an environment in which disabled employees can fully participate in all opportunities provided by the Group from continued employment to training, job moves and promotions.

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

## **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**

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.

# DIRECTORS' REPORT

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 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 and emerging risks associated with Covid-19.

At 31 December 2019 the Group had considerable financial resources: financial investments of £872.8m, 91% of which are liquid (2018: financial investments of £806.3m, 92% liquid), cash and cash equivalents of £98.4m and no borrowings (2018: cash and cash equivalents of £134.1m and no borrowings). Liquid financial investments consist of listed equities and open-ended investment companies, government bonds and listed debt.

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

In light of the additional uncertainty regarding the impact of Covid-19, the Group has considered its capital position, liquidity and the impact on performance. The Group and its businesses have strong levels of cash and other liquid resources and has no concerns over the ability to meet its cash commitments over the three year planning horizon. The Group and its businesses continue to expect to meet regulatory requirements and have responded to any enquiries that our regulators have asked regarding management's assessment of the impact of Covid-19 on solvency and operational matters. Covid-19 has impacted how the businesses operate. The well-established business continuity plans have been used which have ensured our employees are equipped to work in a remote environment and are able to continue to support our customers, work with our key suppliers and perform other functions of the Group. Whilst making some of these short term changes to the way the Group and its businesses operate has caused some level of disruption, the businesses have continued to deliver services and expect to continue to do so over the foreseeable future. Given the Group's operations, robust capital strength, liquidity and in conjunction with forecast projections, the Directors have a reasonable expectation that the Group has adequate resources and is well placed to manage its risks successfully and continue in operational existence for at least 12 months from the date of this report.

## **Auditor and the disclosure of information to auditor**

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

# DIRECTORS' REPORT

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 PricewaterhouseCoopers LLP be appointed 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. The purpose of the policy is to safeguard the independence and objectivity of the external auditor and to comply with the ethical standards of the Financial Reporting Council (FRC).

## Non-adjusting events after the reporting period

Events subsequent to the reporting period are detailed in note 38 to the financial statements.

## Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and Article 4 of the IAS Regulation, and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. 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, International Accounting Standard 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 entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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

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

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with IFRSs as adopted by the European Union, 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
- 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

5 May 2020

# 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 of Ecclesiastical Insurance Group plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Consolidated Statement of Profit or Loss;
- the Consolidated and Parent Statement of Comprehensive Income;
- the Consolidated and Parent Statements of Changes in Equity;
- the Consolidated and Parent Statement of Financial Position;
- the Consolidated and Parent Statement of Cash Flows; and
- the related notes 1 to 39, excluding the capital adequacy disclosures in Note 4(i) calculated in accordance with the Solvency II regime which are marked as unaudited.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards 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 group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, 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 group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

### 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.

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

We have nothing to report in respect of these matters.

## Responsibilities of directors

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

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

## Auditor's responsibilities for the audit of the financial statements

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

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

## Report on other legal and regulatory requirements

### Opinions on other matters prescribed by the Companies Act 2006

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

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

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

### Matters on which we are required to report by exception

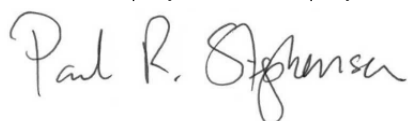
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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.

## 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.



Paul Stephenson BA FCA (Senior statutory auditor)  
for and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom  
5 May 2020

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2019

	Notes	2019 £000	2018 £000
<b>Revenue</b>			
Gross written premiums	5, 6	425,854	393,956
Outward reinsurance premiums	6	(184,788)	(174,625)
Net change in provision for unearned premiums	6	(15,080)	(5,241)
<b>Net earned premiums</b>		<b>225,986</b>	<b>214,090</b>
Fee and commission income	7	97,142	88,234
Other operating income		544	1,039
Net investment return	8	75,704	4,697
<b>Total revenue</b>		<b>399,376</b>	<b>308,060</b>
<b>Expenses</b>			
Claims and change in insurance liabilities	9	(194,627)	(151,905)
Reinsurance recoveries	9	89,619	66,220
Fees, commissions and other acquisition costs	10	(73,788)	(67,397)
Other operating and administrative expenses		(150,056)	(138,235)
<b>Total operating expenses</b>		<b>(328,852)</b>	<b>(291,317)</b>
<b>Operating profit</b>		<b>70,524</b>	<b>16,743</b>
Finance costs		(707)	(329)
Share of profit after tax of associate		59	-
<b>Profit before tax</b>	5	<b>69,876</b>	<b>16,414</b>
Tax expense	14	(11,858)	(1,183)
<b>Profit for the year</b>	11	<b>58,018</b>	<b>15,231</b>
Attributable to:			
Equity holders of the Parent		49,127	6,309
Non-controlling interests		8,891	8,922
		<b>58,018</b>	<b>15,231</b>



# CONSOLIDATED AND PARENT STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2019

	Notes	2019		2018	
		Group £000	Parent £000	Group £000	Restated* Parent £000
<b>Profit for the year</b>		<b>58,018</b>	<b>(928)</b>	15,231	3,539
<b>Other comprehensive income</b>					
<i>Items that will not be reclassified to profit or loss:</i>					
Fair value gains on property		-	-	105	-
(Losses)/gains on retirement benefit plans	20	(7,916)	-	4,562	-
Attributable tax		1,349	-	(807)	-
		<b>(6,567)</b>	-	3,860	-
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Losses on currency translation differences	28	(1,368)	-	(3,082)	-
Gains on net investment hedges	28	640	-	1,692	-
Attributable tax		(19)	-	(187)	-
		<b>(747)</b>	-	(1,577)	-
<b>Net other comprehensive income</b>		<b>(7,314)</b>	-	2,283	-
<b>Total comprehensive income</b>		<b>50,704</b>	<b>(928)</b>	17,514	3,539
Attributable to:					
Equity holders of the Parent		41,813	(928)	8,592	3,539
Non-controlling interests		8,891	-	8,922	-
		<b>50,704</b>	<b>(928)</b>	17,514	3,539

\*The Parent prior year comparative has been restated as detailed in note 1.

# CONSOLIDATED AND PARENT STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

Group	Notes	Attributable to equity holders of the Parent						Total equity £000
		Share capital £000	Revaluation reserve £000	Translation and hedging reserve £000		Retained earnings £000	Non-controlling interests £000	
				£000	£000			
<b>At 1 January 2019</b>		20,000	640	19,071	462,255	501,966	103,090	605,056
<i>Profit for the year</i>		-	-	-	49,127	49,127	8,891	58,018
<i>Other net expense</i>		-	-	(747)	(6,567)	(7,314)	-	(7,314)
Total comprehensive (expense)/income		-	-	(747)	42,560	41,813	8,891	50,704
Acquisition of non-controlling interest		-	-	-	-	-	-	-
Dividends	15	-	-	-	-	-	(8,891)	(8,891)
Gross charitable grant	15	-	-	-	(30,000)	(30,000)	-	(30,000)
Tax relief on charitable grant	15	-	-	-	5,497	5,497	-	5,497
<b>At 31 December 2019</b>		<b>20,000</b>	<b>640</b>	<b>18,324</b>	<b>480,312</b>	<b>519,276</b>	<b>103,090</b>	<b>622,366</b>
<b>At 1 January 2018</b>		20,000	553	20,648	466,268	507,469	103,800	611,269
<i>Profit for the year</i>		-	-	-	6,309	6,309	8,922	15,231
<i>Other net income/(expense)</i>		-	87	(1,577)	3,773	2,283	-	2,283
Total comprehensive income/(expense)		-	87	(1,577)	10,082	8,592	8,922	17,514
Acquisition of non-controlling interest		-	-	-	(325)	(325)	(710)	(1,035)
Dividends	15	-	-	-	-	-	(8,922)	(8,922)
Gross charitable grant	15	-	-	-	(17,000)	(17,000)	-	(17,000)
Tax relief on charitable grant	15	-	-	-	3,230	3,230	-	3,230
<b>At 31 December 2018</b>		<b>20,000</b>	<b>640</b>	<b>19,071</b>	<b>462,255</b>	<b>501,966</b>	<b>103,090</b>	<b>605,056</b>
<b>Parent</b>								
<b>At 1 January 2019</b>		<b>20,000</b>	-	-	<b>10,445</b>	<b>30,445</b>		
Total comprehensive expense attributable to equity holders		-	-	-	(928)	(928)		
<b>At 31 December 2019</b>		<b>20,000</b>	-	-	<b>9,517</b>	<b>29,517</b>		
<b>At 1 January 2018 (restated)*</b>		20,000	-	-	6,906	26,906		
Total comprehensive income attributable to equity holders		-	-	-	3,539	3,539		
<b>At 31 December 2018 (restated)*</b>		<b>20,000</b>	-	-	<b>10,445</b>	<b>30,445</b>		

\*The Parent prior year comparative has been restated as detailed in note 1.

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 28.

Retained earnings of the Group includes a specific non-distributable reserve of a subsidiary amounting to £4,200,000 (2018: £4,200,000).

# CONSOLIDATED AND PARENT STATEMENT OF FINANCIAL POSITION

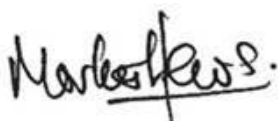
at 31 December 2019

	Notes	31 December 2019		31 December 2018		1 January 2018
		Group £000	Parent £000	Group £000	Restated* Parent £000	Restated* Parent £000
<b>Assets</b>						
Goodwill and other intangible assets	18	64,411	-	59,848	-	-
Deferred acquisition costs	19	38,199	-	33,907	-	-
Deferred tax assets	32	3,184	-	2,557	-	-
Pension assets	20	8,505	-	16,131	-	-
Investment in associate	17	5,171	5,112	-	-	-
Property, plant and equipment	21	22,808	-	9,261	-	-
Investment property	22	148,146	-	152,182	-	-
Financial investments	23	872,759	56,496	806,301	50,703	46,511
Reinsurers' share of contract liabilities	30	342,844	-	297,822	-	-
Current tax recoverable		4,218	-	104	-	58
Other assets	25	150,254	6,050	132,496	4,241	4,255
Cash and cash equivalents	26	98,369	1,005	134,117	5,952	6,319
<b>Total assets</b>		<b>1,758,868</b>	<b>68,663</b>	<b>1,644,726</b>	<b>60,896</b>	<b>57,143</b>
<b>Equity</b>						
Share capital	27	20,000	20,000	20,000	20,000	20,000
Retained earnings and other reserves		499,276	9,517	481,966	10,445	6,906
<b>Equity attributable to equity holders of the Parent</b>		<b>519,276</b>	<b>29,517</b>	<b>501,966</b>	<b>30,445</b>	<b>26,906</b>
Non-controlling interests	29	103,090	-	103,090	-	-
<b>Total equity</b>		<b>622,366</b>	<b>29,517</b>	<b>605,056</b>	<b>30,445</b>	<b>26,906</b>
<b>Liabilities</b>						
Insurance contract liabilities	30	947,265	-	877,525	-	-
Borrowings		14,510	37,758	1,379	29,458	29,458
Provisions for other liabilities	31	5,435	-	5,978	-	-
Pension liabilities	20	4,978	-	3,997	-	-
Retirement benefit obligations	20	5,998	-	5,813	-	-
Deferred tax liabilities	32	36,532	883	32,323	658	599
Current tax liabilities		123	-	2,905	-	-
Deferred income	33	22,991	-	20,064	-	-
Other liabilities	33	98,670	505	89,686	335	180
<b>Total liabilities</b>		<b>1,136,502</b>	<b>39,146</b>	<b>1,039,670</b>	<b>30,451</b>	<b>30,237</b>
<b>Total equity and liabilities</b>		<b>1,758,868</b>	<b>68,663</b>	<b>1,644,726</b>	<b>60,896</b>	<b>57,143</b>

\*The Parent prior year comparative has been restated as detailed in note 1.

No income statement is presented for Ecclesiastical Insurance Group plc as permitted by Section 408 of the Companies Act 2006. The loss after tax of the parent company for the period was £928,000 (2018: profit of £3,539,000).

The financial statements of Ecclesiastical Insurance Group plc, registered number 1718196, on pages 15 to 82 were approved and authorised for issue by the Board of Directors on 5 May 2020 and signed on its behalf by:



Mark Hews  
Group Chief Executive

# CONSOLIDATED AND PARENT STATEMENT OF CASH FLOWS

for the year ended 31 December 2019

	Notes	2019		2018	
		Group £000	Parent £000	Group £000	Parent £000
<b>Profit/(loss) before tax</b>		<b>69,876</b>	<b>(837)</b>	16,414	3,520
<i>Adjustments for:</i>					
Depreciation of property, plant and equipment		5,602	-	2,598	-
Revaluation of property, plant and equipment		-	-	(85)	-
Loss/(profit) on disposal of property, plant and equipment		171	-	(8)	-
Amortisation and impairment of intangible assets		6,574	-	2,299	-
Impairment/(reversal of impairment) of shares in subsidiary undertakings		-	2,027	-	(2,722)
Loss on disposal of intangible assets		-	-	-	-
Share of profit of associate		(59)	-	-	-
Net fair value (gains)/losses on financial instruments and investment property		(53,324)	(1,234)	35,071	(435)
Dividend and interest income		(26,206)	(799)	(27,324)	(832)
Finance costs		707	461	329	368
Adjustment for pension funding		929	-	3,024	-
<i>Changes in operating assets and liabilities:</i>					
Net increase/(decrease) in insurance contract liabilities		75,349	-	(12,750)	-
Net increase in reinsurers' share of contract liabilities		(47,078)	-	(12,980)	-
Net increase in deferred acquisition costs		(4,553)	-	(3,078)	-
Net (increase)/decrease in other assets		(18,262)	(1,755)	(7,018)	7
Net increase in operating liabilities		15,078	118	7,690	49
Net increase/(decrease) in other liabilities		536	-	(696)	-
<b>Cash generated/(used) by operations</b>		<b>25,340</b>	<b>(2,019)</b>	3,486	(45)
Purchases of financial instruments and investment property		(163,192)	(6,432)	(125,739)	-
Sale of financial instruments and investment property		148,454	145	149,562	-
Dividends received		9,972	657	10,414	883
Interest received		15,917	145	17,053	59
Tax (paid)/recovered		(8,497)	133	(5,257)	135
<b>Net cash from/(used by) operating activities</b>		<b>27,994</b>	<b>(7,371)</b>	49,519	1,032
<b>Cash flows from investing activities</b>					
Purchases of property, plant and equipment		(4,677)	-	(1,943)	-
Proceeds from the sale of property, plant and equipment		-	-	60	-
Purchases of intangible assets		(9,619)	-	(2,412)	-
Acquisition of business, net of cash acquired	16, 17	(5,252)	(5,112)	(975)	-
Acquisition of interest in subsidiary	16, 29	(1,360)	(300)	(1,035)	(1,035)
<b>Net cash used by investing activities</b>		<b>(20,908)</b>	<b>(5,412)</b>	(6,305)	(1,035)
<b>Cash flows from financing activities</b>					
Interest paid		(707)	(461)	(329)	(368)
Payment of lease liabilities		(3,035)	-	(346)	-
Proceeds from other borrowings		-	8,300	-	-
Dividends paid to non-controlling interests of subsidiaries		(8,891)	-	(8,922)	-
Donations paid to ultimate parent undertaking	15	(30,000)	-	(17,000)	-
<b>Net cash used by financing activities</b>		<b>(42,633)</b>	<b>7,839</b>	(26,597)	(368)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(35,547)</b>	<b>(4,944)</b>	16,617	(371)
Cash and cash equivalents at beginning of year		134,117	5,952	118,273	6,319
Exchange (losses)/gains on cash and cash equivalents		(201)	(3)	(773)	4
<b>Cash and cash equivalents at end of year</b>	26	<b>98,369</b>	<b>1,005</b>	134,117	5,952

\*The Parent prior year comparative has been restated as detailed in note 1.

# 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 2019 issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU). The financial statements have been prepared on the historical cost basis, except for the revaluation of properties and certain financial instruments.

The accounting policies of the Parent are the same as those of the Group unless otherwise stated.

As stated in the Directors' Report, after making enquiries, including detailed consideration of the impact of Covid-19, the directors consider that it is appropriate to continue to adopt the going concern basis in preparing the accounts.

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

### Adjustments to comparative information

The Parent has assessed the carrying value of its investments in subsidiaries, which are included within financial investments, at 31 December 2019 and identified evidence of impairment. The impairment assessment for prior periods has been reviewed and it has been concluded that an impairment provision should be recognised as a prior year adjustment. This has no impact on the Group financial statements. At 31 December 2019 the cumulative impairment of investments in subsidiaries was £11.4m. The effects of the restatement are detailed below:

#### Parent Company Statement of Changes in Equity extract at 31 December 2018:

	As reported £000	Adjusted £000	Restated £000
Retained earning at 1 January 2018	20,105	(13,199)	6,906
Total comprehensive income attributable to equity holders	817	2,722	3,539
Retained earnings at 31 December 2018	<u>20,922</u>	<u>(10,477)</u>	<u>10,445</u>

Total comprehensive income attributable to equity holders in 2018 increased by £2,722,000 as a result of an impairment reversal.

#### Parent Company Statement of Financial Position extract at 31 December 2018:

	As reported £000	Adjusted £000	Restated £000
Financial investments	61,180	(10,477)	50,703
Retained earnings and other reserves	20,922	(10,477)	10,445

#### Parent Company Statement of Financial Position extract at 1 January 2018:

	As reported £000	Adjusted £000	Restated £000
Financial investments	59,710	(13,199)	46,511
Retained earnings and other reserves	20,105	(13,199)	6,906

# NOTES TO THE FINANCIAL STATEMENTS

## 1 Accounting policies (continued)

### New and revised standards

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

- IFRS 16, *Leases*

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

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

	2019 £000
Operating lease commitments disclosed as at 31 December 2018	21,686
Contract elements reassessed as service agreements	(1,579)
Payments due in periods covered by extension options that are included in the lease term	1,201
Leases committed but not yet commenced at 31 December 2018	(4,969)
Short-term leases, sales taxes and other	(1,611)
Discounted using the lessee's incremental borrowing rate at the date of initial application	(1,809)
Finance liabilities recognised as at 31 December 2018	1,379
<b>Lease liability recognised as at 1 January 2019</b>	<b>14,298</b>

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

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

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

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

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

The change in accounting policy affected the following items on the balance sheet on 1 January 2019:

	At 31 December 2018 £000	Adjustment £000	At 1 January 2019 £000
Property, plant and equipment	9,261	12,203	21,464
Other assets	132,496	(518)	131,978
Borrowings	1,379	(12,919)	(11,540)
Provisions for other liabilities	5,978	(503)	5,475
Other liabilities	89,686	1,736	91,422

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

IFRS 9, *Financial Instruments*, is effective for periods beginning on or after 1 January 2018. However the Group has taken the option available to insurers to defer the application of IFRS 9 as permitted by IFRS 4, *Insurance Contracts*. The Group qualifies for the temporary exemption, which is available until annual periods beginning on or after 1 January 2023, since at 31 December 2015 greater than 80% of its liabilities were within the scope of IFRS 4 and it does not engage in significant activities unconnected with insurance. There has been no significant change to the Group's operations since that date and as a result, the Group continues to apply IAS 39, *Financial Instruments*.

The Parent adopted IFRS 9, *Financial Instruments* with a date of initial application of 1 January 2018.

In addition to the Parent, certain subsidiary entities within the Group do not qualify for the temporary exemption from the requirements of IFRS 9. Further information detailing the adoption of IFRS 9 is disclosed in the statutory financial statements of these entities.

# NOTES TO THE FINANCIAL STATEMENTS

## 1 Accounting policies (continued)

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

Standard	Key requirements	Expected impact on financial statements	Effective date
IFRS 9, <i>Financial Instruments</i> *	Provides a new model for the classification and measurement of financial instruments, a single, forward-looking 'expected loss' impairment model and a reformed approach to hedge accounting.	It is expected that equity instruments will continue to be measured at fair value through profit or loss. There is a possibility that the measurement of certain debt instruments will change to amortised cost or fair value through other comprehensive income. No changes are expected from the more principles-based hedge accounting requirements. The Group is eligible for, and has applied the deferral approach, which gives a temporary exemption from applying IFRS 9 until the effective date of 'IFRS 17, <i>Insurance Contracts</i> '.	Annual periods beginning on or after 1 January 2018. Although can be deferred until 2023 for insurers.
IFRS 17, <i>Insurance Contracts</i>	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, <i>Insurance Contracts</i> 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 2023.

\*This standard has not been applied to Group financial statements but has been applied to Parent financial statements.

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

### Use of estimates

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

### Basis of consolidation

#### *Subsidiaries*

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

# NOTES TO THE FINANCIAL STATEMENTS

## 1 Accounting policies (continued)

### ***Associates***

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

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

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

### **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. 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.



# NOTES TO THE FINANCIAL STATEMENTS

## 1 Accounting policies (continued)

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

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

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

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

### **Net investment return**

Net investment return consists of dividends, interest and rents receivable for the year, realised gains and losses, 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 1 Accounting policies (continued)

### **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

##### *(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.

### **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.

# NOTES TO THE FINANCIAL STATEMENTS

## 1 Accounting policies (continued)

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

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

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

### **Investment property**

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

### **Financial instruments**

The Group applies IAS 39, *Financial Instruments: Recognition and Measurement*. IAS 39 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).

The Parent applies IFRS 9, *Financial Instruments*. Equity investments are designated as fair value through profit and loss and changes to the fair value of equity instruments are recognised in 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).

# NOTES TO THE FINANCIAL STATEMENTS

## 1 Accounting policies (continued)

### **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.

The Parent classifies its investments as financial assets at fair value through profit or loss (mandatorily or designated as such), as financial assets through other comprehensive income or as financial assets at amortised cost.

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

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 (FVOCI)***

#### ***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.

# NOTES TO THE FINANCIAL STATEMENTS

## 1 Accounting policies (continued)

### ***(c) Loans and receivables or financial assets at amortised cost***

Applying IAS 39 the Group classifies some financial assets as 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.

Applying IFRS 9 the Parent classifies some financial assets as amortised cost. Amortised cost assets, 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. Where applicable, appropriate loss allowances are measured at an amount equal to 12-month ECL or lifetime ECLs. Loss allowances are deducted from the gross carrying amount of the trade and other receivables and are recognised in the statement of 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**

#### ***Group as a lessee***

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

Lease liabilities include the net present value of:

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## 1 Accounting policies (continued)

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

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

### ***Group as a lessor***

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

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

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

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

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

### **Provisions and contingent liabilities**

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

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

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

### **Employee benefits**

#### ***Pension obligations***

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

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

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.

# NOTES TO THE FINANCIAL STATEMENTS

## 1 Accounting policies (continued)

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

# NOTES TO THE FINANCIAL STATEMENTS

## 2 Critical accounting estimates and judgements in applying accounting policies

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

### (a) Critical judgements in applying the Group's accounting policies

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

#### *Pension and other post-employment benefits*

The Group's pension and other post employment benefit obligations are discounted at a rate set by reference to market yields at the end of the reporting period on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Judgement is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds includes the nature and quality of the corporate bonds and the identification of outliers which are excluded. Further details are disclosed in note 20.

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).

#### *Goodwill impairment*

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

#### *Recognition of long-term insurance contracts*

The Group has applied judgement in determining, based on the criteria in IFRS 4 'Insurance Contracts', that pre-paid funeral plans give rise to insurance risk and therefore should be accounted for under IFRS 4. 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 policies taken out by the Group with independent third parties to match these liabilities.

#### *Leases*

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

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

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

### (b) Key sources of estimation uncertainty

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

There is uncertainty as to the economic effect that Brexit will have in both the short and long term. The key estimates and assumptions set out below include variables which may be impacted (either positively or negatively) by Brexit. These include but are not limited to discount rate, inflation, long-term economic growth rate and investment market returns. Given the range of possible outcomes of Brexit, management have not altered any key estimates or assumptions for a specific Brexit scenario. The uncertainty as to the impact of Covid-19, which emerged in 2020, may change some of the key estimates and assumptions used during the 2020 financial year.



# NOTES TO THE FINANCIAL STATEMENTS

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

### ***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 30(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 30(a).

### ***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 30(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 20. 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 20.

### ***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 18.

# NOTES TO THE FINANCIAL STATEMENTS

## 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 £000	Liability £000	Miscellaneous financial loss £000	Other £000	Funeral plans £000	Total £000
Territory							
<b>2019</b>							
United Kingdom and Ireland	Gross	185,567	56,323	15,534	3,227	31,889	292,540
	Net	100,233	53,773	9,147	622	(13)	163,762
Australia	Gross	42,331	24,412	1,245	869	-	68,857
	Net	5,083	21,053	1,198	170	-	27,504
Canada	Gross	44,079	20,378	-	-	-	64,457
	Net	30,902	18,898	-	-	-	49,800
Total	Gross	271,977	101,113	16,779	4,096	31,889	425,854
	Net	136,218	93,724	10,345	792	(13)	241,066
<b>2018</b>							
United Kingdom and Ireland	Gross	172,191	53,949	16,922	2,784	37,006	282,852
	Net	92,337	51,490	10,657	645	21	155,150
Australia	Gross	34,681	20,141	1,115	1,009	-	56,946
	Net	3,550	17,289	1,073	169	-	22,081
Canada	Gross	36,560	17,598	-	-	-	54,158
	Net	25,854	16,246	-	-	-	42,100
Total	Gross	243,432	91,688	18,037	3,793	37,006	393,956
	Net	121,741	85,025	11,730	814	21	219,331

# NOTES TO THE FINANCIAL STATEMENTS

## 3 Insurance risk (continued)

### (c) General insurance risks

#### *Property classes*

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

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

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

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

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

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

Claims payment, on average, occurs within a year of the event that gives rise to the claim. However, there is variability around this average with larger claims typically taking longer to settle and business interruption claims taking much longer depending on the length of the indemnity period involved.

#### *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 30 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 3 Insurance risk (continued)

### **(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.

# NOTES TO THE FINANCIAL STATEMENTS

## 4 Financial risk and capital management

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

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

### (a) Categories of financial instruments

#### (i) Categories applying IAS 39

Group	Financial assets				Financial liabilities			Total £000
	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	
<b>At 31 December 2019</b>								
Financial investments	859,673	3,061	9,516	509	-	-	-	872,759
Other assets	-	-	145,546	-	-	-	4,708	150,254
Cash and cash equivalents	-	-	98,369	-	-	-	-	98,369
Borrowings	-	-	-	-	-	(14,510)	-	(14,510)
Other liabilities	-	-	-	-	-	(87,081)	(11,589)	(98,670)
Net other	-	-	-	-	-	-	(385,836)	(385,836)
<b>Total</b>	<b>859,673</b>	<b>3,061</b>	<b>253,431</b>	<b>509</b>	<b>-</b>	<b>(101,591)</b>	<b>(392,717)</b>	<b>622,366</b>
<b>At 31 December 2018</b>								
Financial investments	790,302	5,331	9,931	737	-	-	-	806,301
Other assets	-	-	127,037	-	-	-	5,459	132,496
Cash and cash equivalents	-	-	134,117	-	-	-	-	134,117
Borrowings	-	-	-	-	-	(1,379)	-	(1,379)
Other liabilities	-	-	-	-	(2,306)	(78,679)	(8,701)	(89,686)
Net other	-	-	-	-	-	-	(376,793)	(376,793)
<b>Total</b>	<b>790,302</b>	<b>5,331</b>	<b>271,085</b>	<b>737</b>	<b>(2,306)</b>	<b>(80,058)</b>	<b>(380,035)</b>	<b>605,056</b>

\* Financial liabilities are held at amortised cost.

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

# NOTES TO THE FINANCIAL STATEMENTS

## 4 Financial risk and capital management (continued)

### (ii) Categories applying IFRS 9

Parent	Financial assets			Financial liabilities		Other assets and liabilities	Total
	FVTPL	FVOCI	Amortised cost	FVTPL	Amortised cost		
	£000	£000	£000	£000	£000	£000	£000
<b>At 31 December 2019</b>							
Financial investments	11,100	-	3,747	-	-	41,649	56,496
Other assets	-	-	6,050	-	-	-	6,050
Cash and cash equivalents	-	-	1,005	-	-	-	1,005
Borrowings	-	-	-	-	(37,758)	-	(37,758)
Other liabilities	-	-	-	-	(505)	-	(505)
Net other	-	-	-	-	-	4,229	4,229
<b>Total</b>	<b>11,100</b>	<b>-</b>	<b>10,802</b>	<b>-</b>	<b>(38,263)</b>	<b>45,878</b>	<b>29,517</b>
<b>At 31 December 2018 (restated*)</b>							
Financial investments	7,327	-	-	-	-	43,376	50,703
Other assets	-	-	4,241	-	-	-	4,241
Cash and cash equivalents	-	-	5,952	-	-	-	5,952
Borrowings	-	-	-	-	(29,458)	-	(29,458)
Other liabilities	-	-	-	-	(335)	-	(335)
Net other	-	-	-	-	-	(658)	(658)
<b>Total</b>	<b>7,327</b>	<b>-</b>	<b>10,193</b>	<b>-</b>	<b>(29,793)</b>	<b>42,718</b>	<b>30,445</b>

\*The Parent prior year comparative has been restated as detailed in note 1.

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

	2019			2018		
	SPPI financial assets	Other financial assets	Total financial assets	SPPI financial assets	Other financial assets	Total financial assets
	£000	£000	£000	£000	£000	£000
Financial Investments	9,516	863,243	872,759	9,931	791,039	800,970
Cash and cash equivalents	98,369	-	98,369	134,117	-	134,117
Other financial assets	145,546	-	145,546	127,037	-	127,037
<b>Total fair value</b>	<b>253,431</b>	<b>863,243</b>	<b>1,116,674</b>	<b>271,085</b>	<b>791,039</b>	<b>1,062,124</b>

There has been a £17,655,000 decrease (2018: £19,566,000 increase) in the fair value of SPPI financial assets, and a £72,204,000 increase (2018: £60,322,000 decrease) in the fair value of other financial assets during the reporting period.

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

# NOTES TO THE FINANCIAL STATEMENTS

## 4 Financial risk and capital management (continued)

### (b) Fair value hierarchy

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

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

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

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

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

Analysis of fair value measurement bases	Fair value measurement at the end of the reporting period based on			Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
<b>Group</b>				
<b>At 31 December 2019</b>				
<b>Financial assets at fair value through profit or loss</b>				
Financial investments				
Equity securities	289,164	190	77,803	367,157
Debt securities	490,912	1,200	404	492,516
Derivatives	-	3,061	-	3,061
	<u>780,076</u>	<u>4,451</u>	<u>78,207</u>	<u>862,734</u>
<b>Financial assets at fair value through other comprehensive income</b>				
Financial investments				
Derivatives	-	509	-	509
<b>Total financial assets at fair value</b>	<u>780,076</u>	<u>4,960</u>	<u>78,207</u>	<u>863,243</u>
<b>At 31 December 2018</b>				
<b>Financial assets at fair value through profit or loss</b>				
Financial investments				
Equity securities	241,115	246	52,099	293,460
Debt securities	495,348	1,233	261	496,842
Derivatives	-	5,331	-	5,331
	<u>736,463</u>	<u>6,810</u>	<u>52,360</u>	<u>795,633</u>
<b>Financial assets at fair value through other comprehensive income</b>				
Financial investments				
Derivatives	-	737	-	737
<b>Total financial assets at fair value</b>	<u>736,463</u>	<u>7,547</u>	<u>52,360</u>	<u>796,370</u>
<b>Parent</b>				
<b>At 31 December 2019</b>				
<b>Financial assets at fair value through profit or loss</b>				
Financial investments				
Equity securities	-	-	11,100	11,100
<b>Total financial assets at fair value</b>	<u>-</u>	<u>-</u>	<u>11,100</u>	<u>11,100</u>
<b>At 31 December 2018</b>				
<b>Financial assets at fair value through profit or loss</b>				
Financial investments				
Equity securities	-	-	7,327	7,327
<b>Total financial assets at fair value</b>	<u>-</u>	<u>-</u>	<u>7,327</u>	<u>7,327</u>

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 24).

# 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	Debt	Total
	securities	securities	
£000	£000	£000	
<b>At 31 December 2019</b>			
Opening balance	52,099	261	52,360
Total gains recognised in profit or loss	8,772	143	8,915
Purchases	16,932		16,932
Closing balance	77,803	404	78,207
Total gains for the period included in profit or loss for assets held at the end of the reporting period	8,772	143	8,915
<b>At 31 December 2018</b>			
Opening balance	49,171	125	49,296
Total gains recognised in profit or loss	3,062	5	3,067
Transfers	(134)	134	-
Disposal proceeds	-	(3)	(3)
Closing balance	52,099	261	52,360
Total gains for the period included in profit or loss for assets held at the end of the reporting period	3,091	5	3,096
<b>Parent</b>			
<b>At 31 December 2019</b>			
Opening balance	7,327	-	7,327
Total gains recognised in profit or loss	1,233	-	1,233
Disposal proceeds	2,540	-	2,540
Closing balance	11,100	-	11,100
Total gains for the period included in profit or loss for assets held at the end of the reporting period	1,233	-	1,233
<b>At 31 December 2018</b>			
Opening balance	6,892	-	6,892
Total gains recognised in profit or loss	435	-	435
Closing balance	7,327	-	7,327
Total gains for the period included in profit or loss for assets held at the end of the reporting period	435	-	435
All the above gains or losses included in profit or loss for the period (for both the Group and Parent) are presented in net investment return within the statement of profit or loss.			

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

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

These financial assets are valued using third-party pricing information that is regularly reviewed and internally calibrated based on management's knowledge of the markets.

### Non-exchange-traded derivative contracts (level 2)

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



# NOTES TO THE FINANCIAL STATEMENTS

## 4 Financial risk and capital management (continued)

### ***Unlisted equity securities (level 3)***

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

The valuation is sensitive to the level of underlying net assets, the Euro exchange rate, the price-to-book ratio chosen, an illiquidity discount and a credit rating discount applied to the valuation to account for the risks associated with holding the asset. If the illiquidity discount and credit rating discount applied changes by +/-10%, the value of unlisted equity securities could move by +/-£9m (2018: +/-£6m).

### ***Unlisted debt (level 3)***

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

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

### **(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 three years (2018: two years), reflecting the relatively short-term average duration of its general insurance liabilities. The mean term of discounted general insurance liabilities is disclosed in note 30(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.

# NOTES TO THE FINANCIAL STATEMENTS

## 4 Financial risk and capital management (continued)

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			Total £000
	Within 1 year £000	Between 1 & 5 years £000	After 5 years £000	
<b>At 31 December 2019</b>				
<b>Assets</b>				
Debt securities	6,066	28,732	65,093	99,891
Cash and cash equivalents	3,954	-	-	3,954
	<u>10,020</u>	<u>28,732</u>	<u>65,093</u>	<u>103,845</u>
<b>Liabilities (discounted)</b>				
Gross long-term business provision	20,430	69,404	172,666	262,500
Ceded long-term business provision	(14,913)	(50,181)	(118,194)	(183,288)
Net long-term business provision	<u>5,517</u>	<u>19,223</u>	<u>54,472</u>	<u>79,212</u>
<b>At 31 December 2018</b>				
<b>Assets</b>				
Debt securities	4,380	26,428	67,630	98,438
Cash and cash equivalents	6,268	-	-	6,268
	<u>10,648</u>	<u>26,428</u>	<u>67,630</u>	<u>104,706</u>
<b>Liabilities (discounted)</b>				
Gross long-term business provision	18,541	63,102	157,797	239,440
Ceded long-term business provision	(12,813)	(43,114)	(101,549)	(157,476)
Net long-term business provision	<u>5,728</u>	<u>19,988</u>	<u>56,248</u>	<u>81,964</u>

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.

### (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 Group is exposed to minimal credit risk in relation to all other financial assets.

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

# NOTES TO THE FINANCIAL STATEMENTS

## 4 Financial risk and capital management (continued)

The following table provides information regarding the credit risk exposure based on for financial assets with external credit ratings from Standard & Poor's or an equivalent rating from a similar agency. This includes financial assets that meet the definition of 'solely payments of principal and interest' (SPPI), as detailed in note 4(a)(ii).

Group	SPPI			Total SPPI £000	Non- SPPI
	Cash and cash equivalents*	Reinsurance debtors	Other financial assets		Debt securities
	£000	£000	£000		£000
<b>At 31 December 2019</b>					
AAA	-	-	-	-	113,359
AA	19,759	1,286	-	21,045	138,341
A	18,438	8,856	-	27,294	132,419
BBB	65,070	3	-	65,073	89,563
Below BBB	-	-	-	-	9,537
Not rated	76	1,032	138,911	140,019	9,297
	<b>103,343</b>	<b>11,177</b>	<b>138,911</b>	<b>253,431</b>	<b>492,516</b>
<b>At 31 December 2018</b>					
AAA	-	-	-	-	126,227
AA	23,316	2,788	-	26,104	142,426
A	59,496	8,058	-	67,554	115,026
BBB	61,079	3	-	61,082	91,471
Below BBB	92	-	-	92	12,197
Not rated	48	763	115,442	116,253	9,495
	<b>144,031</b>	<b>11,612</b>	<b>115,442</b>	<b>271,085</b>	<b>496,842</b>
<b>Parent</b>					
<b>At 31 December 2019</b>					
A	581	-	-	581	-
BBB	424	-	-	424	-
Not rated	-	-	9,797	9,797	-
	<b>1,005</b>	<b>-</b>	<b>9,797</b>	<b>10,802</b>	<b>-</b>
<b>At 31 December 2018</b>					
A	4,402	-	-	4,402	-
BBB	1,550	-	-	1,550	-
Not rated	-	-	4,241	4,241	-
	<b>5,952</b>	<b>-</b>	<b>4,241</b>	<b>10,193</b>	<b>-</b>

\*Cash includes amounts held on deposit classified within financial investments and disclosed in note 23. Cash balances which are not rated include cash amounts in hand.

For financial assets meeting the SPPI test that do not have low credit risk, the carrying amount disclosed above is an approximation of their fair value.

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

The debt securities portfolio consists of a range of mainly fixed interest instruments including government securities, local authority issues, corporate loans and bonds, overseas bonds, preference shares and other interest-bearing securities. Limits are imposed on the credit ratings of the corporate bond portfolio and exposures regularly monitored. Group investments in unlisted securities represent less than 1% of this category in the current and prior year.

# NOTES TO THE FINANCIAL STATEMENTS

## 4 Financial risk and capital management (continued)

The Group's exposure to counterparty default on debt securities is spread across a variety of geographical and economic territories, as follows:

Group	2019	2018
	£000	£000
UK	301,227	317,137
Australia	84,726	82,901
Canada	86,292	72,301
Europe	20,271	24,503
Total	<u>492,516</u>	<u>496,842</u>

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.

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

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 trading subsidiaries remain liable for the funeral fee payable to the funeral director. The trading subsidiaries purchase 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.

### (e) Equity price risk

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

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

	2019		2018	
	Group £000	Parent £000	Group £000	Parent £000
UK	289,815	250	UK	241,115
Europe	77,152	10,850	Europe	52,148
Hong Kong	190	-	Hong Kong	197
Total	<u>367,157</u>	<u>11,100</u>	Total	<u>293,460</u>

### (f) Currency risk

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## 4 Financial risk and capital management (continued)

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 24.

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

	2019			2018	
	Group £000	Parent £000		Group £000	Parent £000
Euro	76,391	10,854	Euro	50,374	7,636
Aus \$	41,970	-	Aus \$	47,884	-
Can \$	33,724	-	Can \$	31,024	-
USD \$	1,282	-	NZ \$	1,046	-
HKD \$	176	-	USD \$	538	-

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 24.

### (g) Liquidity risk

Liquidity risk is the risk that funds may not be available to pay obligations when due. The Group is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts. An estimate of the timing of the net cash outflows resulting from insurance contracts is provided in note 30. 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 leases, for which a maturity analysis is included in note 34, and other liabilities for which a maturity analysis is included in note 33.

# NOTES TO THE FINANCIAL STATEMENTS

## 4 Financial risk and capital management (continued)

### (h) Market risk sensitivity analysis

The sensitivity of profit and other equity reserves to movements on market risk variables (comprising interest rate, currency and equity price risk), each considered in isolation 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 20.

Group		Potential increase/ (decrease) in profit		Potential increase/ (decrease) in other equity reserves	
Variable	Change in variable	2019 £000	2018 £000	2019 £000	2018 £000
Interest rate risk	-100 basis points	(5,796)	(4,730)	(25)	-
	+100 basis points	3,488	2,799	37	(3)
Currency risk	-10%	7,401	5,523	7,628	7,613
	+10%	(6,055)	(4,519)	(6,241)	(6,229)
Equity price risk	+/-10%	29,740	23,770	-	-

Parent		Potential increase/ (decrease) in profit		Potential increase/ (decrease) in other equity reserves	
Variable	Change in variable	2019 £000	2018 £000	2019 £000	2018 £000
Currency risk	-10%	977	687	-	-
	+10%	(799)	(562)	-	-
Equity price risk	+/-10%	899	593	-	-

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## 4 Financial risk and capital management (continued)

### (i) Capital management

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

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

The Group is subject to insurance solvency regulations in all the territories in which it issues insurance and investment contracts, and capital is managed and evaluated on the basis of both regulatory 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. The prior year figures in the table below are as disclosed in the Company's SFCRs, available on the Group's website. These differ from the figures reported last year as they were estimated based on information available to management at the time the accounts were signed.

The Group's Solvency II Own Funds will be subject to a separate independent audit, as part of the Group's process for Solvency II reporting to the PRA. The SCR is not subject to audit as it is calculated using an internal model which has been approved for use by the PRA. The Group expects to meet the PRA's revised deadline for submission to the PRA of 14 July 2020, and its SFCR will be made available on the Group's website shortly after.

	<b>2019</b>	2018
	<b>(unaudited)</b>	(unaudited*)
	<b>£000</b>	£000
Solvency II Own Funds	<b>534,651</b>	523,990
Solvency Capital Requirement	<b>(282,823)</b>	(274,021)
Own Funds in excess of Solvency Capital Requirement	<b>251,828</b>	249,969
Solvency II Capital Cover	<b>189%</b>	191%

\*Unaudited with the exception of the Group's Solvency II own funds

Economic capital is the Group's own internal view of the level of capital required, and this measure is an integral part of the Own Risk and Solvency Assessment Report (ORSA) which is a private, internal forward-looking assessment of own risk, as required as part of the Solvency II regime. Risk appetite is set such that the target level of economic capital is always higher than the regulatory SCR.

# NOTES TO THE FINANCIAL STATEMENTS

## 5 Segment information

### (a) Operating segments

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

The activities of each operating segment are described below.

#### - General business

##### *United Kingdom and Ireland*

The Group's principal general insurance business operation is in the UK, where it operates under the Ecclesiastical and Ansva 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 Ansva 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 and EdenTree Asset Management Limited.

#### - Broking and Advisory

The Group provides insurance broking through South Essex Insurance Brokers Limited and Lycetts Holdings Limited and its subsidiaries, financial advisory services through Ecclesiastical Financial Advisory Services Limited, prepaid funeral plan distribution and administration through Ecclesiastical Planning Services Limited, and risk advisory services through Ansva Risk Management Services Pty Limited which operates in Australia, and Lycetts Risk Management Services Limited, a subsidiary of Lycetts Holdings Limited.

#### - Long-term insurance business

The Group markets and sells pre-paid funeral 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.

	2019			2018		
	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	257,135	-	257,135	242,339	-	242,339
Australia	68,857	-	68,857	56,946	-	56,946
Canada	64,457	-	64,457	54,158	-	54,158
Other insurance operations	3,516	-	3,516	3,507	-	3,507
<b>Total</b>	<b>393,965</b>	<b>-</b>	<b>393,965</b>	<b>356,950</b>	<b>-</b>	<b>356,950</b>
Long-term business	31,889	-	31,889	37,006	-	37,006
Investment management	-	12,798	12,798	-	12,601	12,601
Broking and Advisory	-	34,977	34,977	-	34,286	34,286
<b>Group revenue</b>	<b>425,854</b>	<b>47,775</b>	<b>473,629</b>	<b>393,956</b>	<b>46,887</b>	<b>440,843</b>

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 38.

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.

2019	Combined operating ratio	Insurance £000	Investments £000	Other £000	Total £000
General business					
United Kingdom and Ireland	86.8%	20,412	59,433	(292)	79,553
Australia	114.1%	(3,246)	1,815	(65)	(1,496)
Canada	95.1%	2,218	1,805	(174)	3,849
Other insurance operations		634	-	-	634
	91.1%	20,018	63,053	(531)	82,540
Long-term business		335	6,486	-	6,821
Investment management		-	-	(384)	(384)
Broking and Advisory		-	-	(2,154)	(2,154)
Corporate costs		-	-	(17,850)	(17,850)
Other activities		-	903	-	903
<b>Profit/(loss) before tax</b>		<b>20,353</b>	<b>70,442</b>	<b>(20,919)</b>	<b>69,876</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 5 Segment information (continued)

2018	<i>Combined operating ratio</i>	Insurance £000	Investments £000	Other £000	Total £000
General business					
United Kingdom and Ireland	80.2%	29,426	(1,836)	(252)	27,338
Australia	93.7%	1,400	2,073	(77)	3,396
Canada	106.5%	(2,599)	1,655	-	(944)
Other insurance operations		963	-	-	963
	86.4%	29,190	1,892	(329)	30,753
Long-term business		1,642	(3,181)	-	(1,539)
Investment management		-	-	941	941
Broking and Advisory		-	-	2,547	2,547
Corporate costs		-	-	(16,829)	(16,829)
Other activities		-	541	-	541
<b>Profit/(loss) before tax</b>		<b>30,832</b>	<b>(748)</b>	<b>(13,670)</b>	<b>16,414</b>

### (b) Geographical information

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

	2019		2018	
	Gross written premiums £000	Non-current assets £000	Gross written premiums £000	Non-current assets £000
United Kingdom and Ireland	292,540	226,355	282,852	219,324
Australia	68,857	4,348	56,946	1,279
Canada	64,457	8,272	54,158	4,018
	<b>425,854</b>	<b>238,975</b>	<b>393,956</b>	<b>224,621</b>

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
<b>For the year ended 31 December 2019</b>			
Gross written premiums	393,965	31,889	425,854
Outward reinsurance premiums	(152,886)	(31,902)	(184,788)
Net written premiums	241,079	(13)	241,066
Change in the gross provision for unearned premiums	(23,829)	-	(23,829)
Change in the provision for unearned premiums, reinsurers' share	8,749	-	8,749
Change in the net provision for unearned premiums	(15,080)	-	(15,080)
<b>Earned premiums, net of reinsurance</b>	<b>225,999</b>	<b>(13)</b>	<b>225,986</b>
<b>For the year ended 31 December 2018</b>			
Gross written premiums	356,950	37,006	393,956
Outward reinsurance premiums	(137,640)	(36,985)	(174,625)
Net written premiums	219,310	21	219,331
Change in the gross provision for unearned premiums	(11,005)	-	(11,005)
Change in the provision for unearned premiums, reinsurers' share	5,764	-	5,764
Change in the net provision for unearned premiums	(5,241)	-	(5,241)
<b>Earned premiums, net of reinsurance</b>	<b>214,069</b>	<b>21</b>	<b>214,090</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 7 Fee and commission income

During the year, the Group recognised £52,905,000 (2018: £45,056,000) fee and commission income in accordance with IFRS 4 Insurance Contracts and £44,236,000 (2018: £43,188,000) in accordance with IFRS 15 Revenue from contracts with customers. Fee and commission income from contracts with customers was recognised as follows:

	Recognised at a point in time £000	Recognised over time £000	Total £000
<b>For the year ended 31 December 2019</b>			
General business	302	-	302
Investment management	108	12,690	12,798
Broking and advisory*	29,434	1,702	31,136
	<b>29,844</b>	<b>14,392</b>	<b>44,236</b>
<b>For the year ended 31 December 2018</b>			
General business	230	-	230
Investment management	101	12,500	12,601
Broking and advisory*	28,455	1,902	30,357
	<b>28,786</b>	<b>14,402</b>	<b>43,188</b>

\*£3,841,000 (2018: £3,929,000) of broking and advisory income is recognised in accordance with IFRS 4 therefore not included in the table above.

## 8 Net investment return

	2019 £000	2018 £000
<i>Income from financial assets at fair value through profit or loss</i>		
- equity income	9,947	10,303
- debt income	14,221	15,026
<i>Income from financial assets calculated using the effective interest rate method</i>		
- cash and cash equivalents income	662	542
- other income received	1,413	1,289
<i>Other income</i>		
- rental income	8,538	8,257
- exchange movements	32	122
<b>Investment income</b>	<b>34,813</b>	<b>35,539</b>
Fair value movements on financial instruments at fair value through profit or loss	57,224	(35,015)
Fair value movements on investment property	(3,900)	(56)
Fair value movements on property, plant and equipment	-	85
Impact of discount rate change on insurance contract liabilities	(12,433)	4,144
<b>Net investment return</b>	<b>75,704</b>	<b>4,697</b>

Included within fair value movements on financial instruments at fair value through profit or loss are gains of £162,000 (2018: £1,873,000 - previously reported as a loss of £325,000) in respect of derivative instruments.

# NOTES TO THE FINANCIAL STATEMENTS

## 9 Claims and change in insurance liabilities and reinsurance recoveries

	General business £000	Long-term business £000	Total £000
<b>For the year ended 31 December 2019</b>			
Gross claims paid	139,221	18,473	157,694
Gross change in the provision for claims	18,260	-	18,260
Gross change in long-term business provisions	-	18,673	18,673
Claims and change in insurance liabilities	<u>157,481</u>	<u>37,146</u>	<u>194,627</u>
Reinsurers' share of claims paid	(40,808)	(12,910)	(53,718)
Reinsurers' share of change in the provision for claims	(11,992)	-	(11,992)
Reinsurers' share of change in long-term business provisions	-	(23,909)	(23,909)
Reinsurance recoveries	<u>(52,800)</u>	<u>(36,819)</u>	<u>(89,619)</u>
<b>Claims and change in insurance liabilities, net of reinsurance</b>	<u>104,681</u>	<u>327</u>	<u>105,008</u>
<b>For the year ended 31 December 2018</b>			
Gross claims paid	155,137	16,943	172,080
Gross change in the provision for claims	(42,915)	-	(42,915)
Gross change in long-term business provisions	-	22,740	22,740
Claims and change in insurance liabilities	<u>112,222</u>	<u>39,683</u>	<u>151,905</u>
Reinsurers' share of claims paid	(48,691)	(10,833)	(59,524)
Reinsurers' share of change in the provision for claims	22,503	-	22,503
Reinsurers' share of change in long-term business provisions	-	(29,199)	(29,199)
Reinsurance recoveries	<u>(26,188)</u>	<u>(40,032)</u>	<u>(66,220)</u>
<b>Claims and change in insurance liabilities, net of reinsurance</b>	<u>86,034</u>	<u>(349)</u>	<u>85,685</u>

## 10 Fees, commissions and other acquisition costs

	2019 £000	2018 £000
Fees paid	1,893	1,849
Commission paid	61,303	54,768
Change in deferred acquisition costs	(4,553)	(3,078)
Other acquisition costs	15,145	13,858
<b>Fees, commissions and other acquisition costs</b>	<u>73,788</u>	<u>67,397</u>

## 11 Profit for the year

	2019 £000	2018 £000
<b>Profit for the year has been arrived at after (crediting)/charging:</b>		
Net foreign exchange gains	(32)	(122)
Depreciation of property, plant and equipment	5,602	2,598
Loss/(profit) on disposal of property, plant and equipment	171	(8)
Amortisation of intangible assets	2,352	2,277
Impairment of goodwill	4,222	22
Decrease in fair value of investment property	3,900	56
Employee benefits expense including termination benefits	101,919	98,014

# NOTES TO THE FINANCIAL STATEMENTS

## 12 Auditor's remuneration

	2019 £000	2018 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	123	18
<b>Fees payable to the Company's auditor and its associates for other services:</b>		
- The audit of the Company's subsidiaries	772	642
Total audit fees	<u>895</u>	<u>660</u>
- Audit-related assurance services	276	235
Total non-audit fees	<u>276</u>	<u>235</u>
<b>Fees payable to the Company's auditor in respect of associated pension schemes</b>		
- The audit of associated pension schemes	17	18
<b>Total auditor's remuneration</b>	<u>1,188</u>	<u>913</u>

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

## 13 Employee information

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

	2019			2018		
	General business	Long-term business	Other	General business	Long-term business	Other
	No.	No.	No.	No.	No.	No.
United Kingdom and Ireland	781	1	451	771	1	440
Australia	97	-	-	96	-	-
Canada	84	-	-	77	-	-
	<u>962</u>	<u>1</u>	<u>451</u>	<u>944</u>	<u>1</u>	<u>440</u>

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.

The number of persons employed by the Parent during the year was nil (2018: nil).

	2019 £000	2018 £000
<b>Key management personnel</b>		
Wages and salaries	4,713	4,208
Social security costs	443	481
Pension costs - defined contribution plans	213	235
	<u>5,369</u>	<u>4,924</u>
<b>Other employees</b>		
Wages and salaries	81,972	74,741
Social security costs	7,913	7,092
Pension costs - defined contribution plans	5,364	6,138
Pension costs - defined benefit plans	2,233	5,409
Other post-employment benefits	154	259
	<u>103,005</u>	<u>98,563</u>
Staff costs recharged to related undertakings of the Group	(355)	(352)
Capitalised staff costs	(1,090)	(342)
	<u>101,560</u>	<u>97,869</u>

The above figures do not include termination benefits of £359,000 (2018: £145,000).

Defined contribution pension costs in 2018 include a one-off company contribution of £2,017,000 that was be paid by the Group during 2019 following closure of the defined benefit pension plan to future accrual.

# NOTES TO THE FINANCIAL STATEMENTS

## 13 Employee information (continued)

The remuneration of the directors (including non-executive directors) is set out in aggregate below:

	2019 £000	2018 £000
Salaries and other short-term employee benefits	2,423	2,272
Long-term cash incentive	808	631
Post-employment benefits	126	142
	<b>3,357</b>	<b>3,045</b>

Directors' remuneration includes amounts paid in Canadian dollars. An average exchange rate of 1.6981 Canadian dollars to 1 GBP has been used in respect of the current and prior year.

Post-employment benefits includes £57,000 (2018: £58,000) 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 (2018: no directors). One director (2018: two) was a member of the Group's defined contribution scheme during the year.

	2019 £000	2018 £000
Highest paid director	1,489	1,240
- emoluments		
- money purchase pension contributions	-	-
Chairman's fees *	118	133

\*Mr Henderson was appointed as Chairman of the Group on 19 March 2019 following the resignation of Mr Hylands.

## 14 Tax expense

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

	2019 £000	2018 £000
Current tax	6,057	9,079
- current year		
- prior years	851	(286)
Deferred tax	4,950	(7,610)
- temporary differences		
<b>Total tax expense</b>	<b>11,858</b>	<b>1,183</b>

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

	2019 £000	2018 £000
Profit before tax	69,876	16,414
Tax calculated at the UK blended standard rate of tax of 19% (2018: 19%)	13,276	3,119
<i>Factors affecting charge for the year:</i>		
Expenses not deductible for tax purposes	1,562	28
Non-taxable income	(3,200)	(1,673)
Long-term insurance and other tax paid at non-standard rates	(198)	208
Utilisation of tax losses for which no deferred tax asset has been recognised	(433)	(213)
Adjustments to tax charge in respect of prior periods	851	(286)
<b>Total tax expense</b>	<b>11,858</b>	<b>1,183</b>

At the balance sheet date, a change in the UK standard rate of corporation tax from 19% to 17% was to become effective from 1 April 2020. Deferred tax has been provided at an average rate of 17% (2018: 17%).

# NOTES TO THE FINANCIAL STATEMENTS

## 14 Tax expense (continued)

### (b) Tax charged to other comprehensive income

	2019 £000	2018 £000
<i>Current tax charged on:</i>		
Fair value movements on hedge derivatives	129	110
<i>Deferred tax (credited)/charged on:</i>		
Fair value movements on property	-	18
Actuarial movements on retirement benefit plans	(1,349)	789
Fair value movements on hedge derivatives	(110)	77
<b>Total tax charged to other comprehensive income</b>	<b>(1,330)</b>	<b>994</b>

Tax relief on charitable grants of £5,497,000 (2018: £3,230,000) is taken directly to equity.

## 15 Appropriations

	2019 £000	2018 £000
<b>Charitable grants</b>		
Gross charitable grants to the ultimate parent company, Allchurches Trust Limited	30,000	17,000
Tax relief	(5,497)	(3,230)
Net appropriation for the year	<b>24,503</b>	<b>13,770</b>

## 16 Acquisitions

On 4 October 2019, Lycetts Holdings Limited acquired the entire issued ordinary share capital of Robertson-McIsaac Limited to expand its broker business.

On 11 June 2018, South Essex Insurance Brokers Limited acquired certain assets of Equicover Limited and on 30 November 2018 acquired assets of Equestrian World Services from Greenwood Moreland Insurance Brokers. Both acquisitions were in order to further expand equine insurance broking services.

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

	2019 £000	2018 £000
<b>Assets and liabilities acquired</b>		
Intangible assets	-	292
Tangible assets	3	-
Financial assets	567	-
Financial liabilities	(70)	-
Total identifiable assets	<b>500</b>	<b>292</b>
Goodwill	<b>1,529</b>	-
Total consideration	<b>2,029</b>	<b>292</b>
<b>Satisfied by:</b>		
Cash	1,817	225
Deferred consideration arrangement	212	67
	<b>2,029</b>	<b>292</b>
<b>Cash flow analysis</b>		
Cash consideration	1,817	225
Less: cash balances acquired	(456)	-
	<b>1,361</b>	<b>225</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 16 Acquisitions (continued)

The deferred consideration arrangement made in 2019 requires a cash payment to be made on 30 August 2021.

The fair value of the identifiable intangible assets acquired in 2018 of £292,000 consists of the value of distributor relationships acquired. The deferred consideration arrangement required a cash payment to be made on 31 August 2019 and 31 August 2020. The amount paid in each case is determined by the number of policies converted in the two consecutive annual 'earn-out' periods which end on 6 June 2020. The fair value of the contingent consideration at acquisition was £67,000 based on forecast sales for the two 'earn-out' periods. At the acquisition date the potential future payment in respect of contingent consideration was between £nil and £90,000.

At the balance sheet date, the fair value of contingent consideration is £23,000 (2018: £63,000) and the movement in the fair value, as shown in note 31, is due to amounts paid in the year. Based on the actual policies converted in the period to 31 December 2019 the potential future payment is between £23,000 and £32,000 (2018: £63,000 and £90,000).

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

The acquisitions contributed £115,000 (2018: £16,000) revenue and £11,000 (2018: £14,000) to the Group's profit before tax between the dates of acquisition and the balance sheet date.

## 17 Associate undertaking

On 30 September 2019 the Parent acquired 20% of the issued ordinary share capital of Lloyd & Whyte Group Limited, an unlisted company incorporated in the United Kingdom, and the holding company of a group whose primary activity is insurance brokerage services. A reconciliation of the movement in the Group's investment in associate is as follows:

Group	£000 Share of net assets	£000 Goodwill	£000 Total
At 1 January 2019	-	-	-
Acquired on 30 September 2019	483	4,629	5,112
Share of profit after tax for the period	59	-	59
<b>At 31 December 2019</b>	<b>542</b>	<b>4,629</b>	<b>5,171</b>

At the year end date the Group's interest in Lloyd & Whyte Group Limited is as follows:

	2019 £000
Group's 20% share of:	
Revenue	550
Assets	3,508
Liabilities	(3,158)
Share of net assets	350

Included in the Parent statement of financial position is £5,112,000 in respect of the investment in Lloyd & Whyte Group Limited at cost.



# NOTES TO THE FINANCIAL STATEMENTS

## 18 Goodwill and other intangible assets

Group	Goodwill	Computer	Other	Total
	£000	software £000	intangible assets £000	
<b>Cost</b>				
At 1 January 2019	60,034	24,177	19,251	103,462
Additions	1,529	9,619	-	11,148
Disposals	-	(4)	-	(4)
Exchange differences	-	7	-	7
At 31 December 2019	<b>61,563</b>	<b>33,799</b>	<b>19,251</b>	<b>114,613</b>
<b>Accumulated impairment losses and amortisation</b>				
At 1 January 2019	12,820	18,155	12,639	43,614
Amortisation charge for the year	-	968	1,384	2,352
Impairment losses for the year	4,222	-	-	4,222
Disposals	-	(4)	-	(4)
Exchange differences	-	18	-	18
At 31 December 2019	<b>17,042</b>	<b>19,137</b>	<b>14,023</b>	<b>50,202</b>
<b>Net book value at 31 December 2019</b>	<b>44,521</b>	<b>14,662</b>	<b>5,228</b>	<b>64,411</b>
<b>Cost</b>				
At 1 January 2018	60,034	21,898	18,959	100,891
Additions	-	2,412	292	2,704
Disposals	-	(11)	-	(11)
Exchange differences	-	(122)	-	(122)
At 31 December 2018	<b>60,034</b>	<b>24,177</b>	<b>19,251</b>	<b>103,462</b>
<b>Accumulated impairment losses and amortisation</b>				
At 1 January 2018	12,798	17,283	11,287	41,368
Amortisation charge for the year	-	925	1,352	2,277
Impairment losses for the year	22	-	-	22
Disposals	-	(11)	-	(11)
Exchange differences	-	(42)	-	(42)
At 31 December 2018	<b>12,820</b>	<b>18,155</b>	<b>12,639</b>	<b>43,614</b>
<b>Net book value at 31 December 2018</b>	<b>47,214</b>	<b>6,022</b>	<b>6,612</b>	<b>59,848</b>

£18,060,000 (2018: £20,032,000) of the goodwill balance 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. £1,496,000 (2018: £3,018,000) of the goodwill balance relates to the acquisition of the assets of Funeral Planning Services Limited by Ecclesiastical Planning Services Limited during 2017.

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. As required by IFRSs, estimates of future cash flows exclude cash inflows or outflows that are expected to arise from improving or enhancing the asset's performance. Cash flows beyond this period are extrapolated using the UK long-term average growth rate, usually sourced from the Office for Budget Responsibility (OBR). Where the value in use is less than the current carrying value of the CGU in the statement of financial position, the goodwill is impaired in order to ensure that the CGU carrying value is not greater than its future value to the Group.

The Group selected a UK long-term growth rate of 1.6% (2018: 1.6%) as being appropriate, based on medium-term rates published in the OBR's November report. The pre-tax discount rate of 9.2% (2018: 9.8%) reflects the way that the market would assess the specific risks associated with the estimated cash flows.

The aggregation of assets for identifying the cash-generating unit ('CGU') are those assets which directly impact the cash flow projections.

# NOTES TO THE FINANCIAL STATEMENTS

## 18 Goodwill and other intangible assets (continued)

The carrying amount of the investment in Lycetts Holdings Limited before impairment was £32,360,000 which included £20,032,000 of goodwill. The calculated value in use was £30,388,000. This was calculated using projected cash flows to perpetuity, a discount rate of 9.2% and a growth rate beyond initial cash flow projections of 1.6%. The recoverable amount of the investment in Lycetts Holdings Limited, determined on a value in use basis, indicated that an impairment of £1,972,000 arose in the year. Forecasted cash flows fell below the level required to maintain the valuation. The goodwill in respect of Lycetts Holdings Limited is now equal to the recoverable amount and therefore any adverse change in key assumptions would result in further impairment. In the prior year the recoverable amount of the goodwill was greater than the carrying amount and no impairment was made. 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 £8,769,000 (2018: £8,441,000). If the cumulative growth rate between 2020 and 2022 was 4.5% lower than assumed in management-approved business plans, or the discount rate increased by 2.5%, then the recoverable amount would equal the carrying amount. For the investment in Lansdown Insurance Brokers Limited, the headroom above the carrying value is significant and reasonably possible changes to the key assumptions do not result in impairment.

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

Other intangible assets consist of acquired brand, customer and distribution relationships. £2,982,000 (2018: £3,981,000) of the intangible assets balance relates to the acquisition of Lycetts Holdings Limited and has a remaining useful life of three years (2018: four years). £1,562,000 (2018: £1,786,000) of the intangible assets relates to the acquisition of the assets of Funeral Planning Services Limited and has a remaining useful life of seven years (2018: eight years).

## 19 Deferred acquisition costs

Group	2019 £000	2018 £000
At 1 January	33,907	31,267
Increase in the period	38,529	34,041
Release in the period	(33,976)	(30,963)
Exchange differences	(261)	(438)
At 31 December	<u>38,199</u>	<u>33,907</u>

All balances are current.

## 20 Retirement benefit schemes

### Defined contribution pension plans

The Group operates a number of defined contribution pension plans, for which contributions by the Group are disclosed in note 13.

### Defined benefit pension plans

The Group's main defined benefit plan is operated by Ecclesiastical Insurance Office plc (EIO) for UK employees, which includes two discrete sections, the EIO Section and Ansvar Section. The plan closed to new entrants on 5 April 2006. The terms of the plan for future service changed in August 2011 from a non-contributory final salary scheme to a contributory scheme in which benefits are based on career average revalued earnings. The scheme closed to future accrual on 30 June 2019 in line with the announcement in the prior year. Active members in employment at 30 June 2019 retained certain enhanced benefits after the plan closed to future accrual, including benefits in relation to death in service and ill health retirement. They will also retain the link to final salary whilst they remain employed by EIO. From 1 July 2019, active members in employment joined one of the Group's defined contribution plans.

The assets of the main defined benefit plan are held separately from those of the Group by the Trustee of the Ecclesiastical Insurance Office plc Staff Retirement Benefit Fund (the 'Fund'). The Fund is subject to the Statutory Funding Objective under the Pensions Act 2004. An independent qualified actuary appointed by the Trustee is responsible for undertaking triennial valuations to determine whether the Statutory Funding Objective is met. Pension costs for the plan are determined by the Trustee, having considered the advice of the actuary and having consulted with the employer. The most recent triennial valuation was at 31 December 2016. As the scheme is closed to future accrual, no contribution is expected to be paid by the Group in 2020 (2018: £1.3m to 30 June 2019).

Actuarial valuations were reviewed and updated by an actuary at 31 December 2019 for IAS 19 purposes. The announcement of closure to future accrual from 30 June 2019 limits the maximum surplus that the Group can recognise in respect of the EIO Section of the Fund as it does not have an unconditional right to a refund of surplus. At 31 December 2019 the maximum surplus that could be recognised in the EIO Section is greater than the IAS 19 surplus, therefore the surplus in this Section has been recognised in full in accordance with International Financial Reporting Interpretations Committee 14 (IFRIC 14). EIO has an unconditional right to a refund of surplus in the Ansvar Section of the Fund which has been recognised in full in accordance with IFRIC 14.

# NOTES TO THE FINANCIAL STATEMENTS

## 20 Retirement benefit schemes (continued)

In the prior year, there was a High Court ruling relating to Guaranteed Minimum Pensions (GMP) equalisation of the Lloyds Bank pension scheme which has implications for the EIO section of the Group's main defined benefit plan. The impact of the ruling was estimated at £1.5m and presented as a past service cost in the statement of profit and loss. There has been no change in the estimated impact of the ruling in the current year.

In addition to the Group's main plan, Lycett, Browne-Swinburne & Douglass Limited (LBSD) 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 2018. The contribution expected to be paid by the Group into the plan during the next financial year is £0.3m (2018: £0.3m).

In the current year, actuarial losses arising from changes in financial assumptions of £61.9m (2018: actuarial gains of £27.9m) have been recognised in the statement of other comprehensive income. These losses resulted from a 0.8% decrease in the discount rate assumption for both defined benefit plans, partially offset by favourable movements in inflation.

Actuarial gains of £13.6m have been recognised in the current year (2018: £0.2m) as a result of changes in demographic assumptions. This is mainly due to adopting the Continuous Mortality Investigation (CMI) 2018 projections table, in place of the CMI 2016 projections table, to determine the future improvements in mortality assumption for the Group's main defined benefit plan.

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. In the prior year, the projection for the plan operated by LBSD was based on a roll forward of the liabilities from the initial results of the triennial valuation at 1 January 2018. Experience adjustments arise from differences between actual and assumed experience. A £0.1m experience loss has been recognised in the year (2018: £3.8m loss arising from membership and other experience adjustments).

The plans typically expose the Group to risks such as:

- Investment risk: The plans hold 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 defined benefit plan set the investment objectives and strategy for the Fund based on independent advice and in consultation with the employer. Key factors addressed in setting strategy include the Fund's liability profile, funding level and strength of employer covenant. Their key objectives are to ensure the Fund can meet members' guaranteed benefits as they fall due, reduce the risk of assets failing to meet its liabilities over the long term and manage the volatility of returns and overall funding level.

A blend of diversified growth assets (equities and property) and protection assets (bonds, gilts and cash) are deployed to balance the level of risk to that required to provide, with confidence, a sufficient return and liquidity to continue to meet members' obligations as they fall due. The Trustees have identified the key risks faced by the Fund in meeting this objective to be falls in bond yields and rising inflation.

Assets include an LDI ('Liability Driven Investments') portfolio, structured to increase in value with decreases in interest rates and grow in line with inflation expectations. This is estimated currently to hedge 60% of the interest rate and inflation rate risk of the guaranteed benefits of the Fund. Exposure of the Fund's assets to interest rates and inflation counter-balances exposure of the Fund's liabilities to these factors and has reduced, but not eliminated, volatility in the funding position.

# NOTES TO THE FINANCIAL STATEMENTS

## 20 Retirement benefit schemes (continued)

The Trustees of the Group's main defined benefit plan will proceed to undertake further analysis and review of the Fund's investment strategy in the first half of 2020, informed by refreshed benefits and cashflow projections prepared for the triennial valuation as at 31 December 2019 and reflecting the closure to future accrual during 2019. Their aim is to establish a Long Term Funding Target in line with guidance from the Pensions Regulator. The Trustees intend that this long term target will be reached through investment performance only and without requiring further contributions from the employer.

Group	2019 £000	2018 £000
<b>The amounts recognised in the statement of financial position are determined as follows:</b>		
Present value of funded obligations	(388,115)	(340,281)
Fair value of plan assets	391,642	352,415
	<u>3,527</u>	<u>12,134</u>
Restrictions on asset recognised	-	-
Net asset in the statement of financial position	<u>3,527</u>	<u>12,134</u>
<b>Movements in the net defined benefit pension scheme asset/(liability) recognised in the statement of financial position are as follows:</b>		
At 1 January	12,134	15,858
Expense charged to profit or loss*	(2,522)	(5,999)
Amounts recognised in other comprehensive income	(7,678)	(700)
Contributions paid	1,593	2,975
Distribution of surplus	-	-
At 31 December	<u>3,527</u>	<u>12,134</u>
<b>The amounts recognised through profit or loss are as follows:</b>		
Current service cost	2,383	4,425
Administration cost	493	438
Interest expense on liabilities	9,023	8,498
Interest income on plan assets	(9,377)	(8,910)
Past service cost	-	1,548
Total, included in employee benefits expense	<u>2,522</u>	<u>5,999</u>
<b>The amounts recognised in the statement of other comprehensive income are as follows:</b>		
Return on plan assets, excluding interest income	40,740	(24,996)
Experience losses on liabilities	(91)	(3,849)
Gains from changes in demographic assumptions	13,569	249
(Losses)/gains from changes in financial assumptions	(61,896)	27,896
Total included in other comprehensive income	<u>(7,678)</u>	<u>(700)</u>
* Charge to profit or loss includes £289,000 (2018: £590,000) in respect of member salary sacrifice contributions.		

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

	2019 £000	2018 £000
Pension assets	8,505	16,131
Pension liabilities	(4,978)	(3,997)
	<u>3,527</u>	<u>12,134</u>

# NOTES TO THE FINANCIAL STATEMENTS

## 20 Retirement benefit schemes (continued)

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

	2019	2018
	%	%
Discount rate	1.90	2.70
Inflation (RPI)	2.99	3.20
Inflation (CPI)	2.30	2.20
Future salary increases	4.22	4.13
Future increase in pensions in deferment	2.37	2.29
Future average pension increases (linked to RPI)	2.80	3.00
Future average pension increases (linked to CPI)	1.50	1.50

	2019	2018
Mortality rate		
The average life expectancy in years of a pensioner retiring at age 65, at the year end date, is as follows:		
Male	22.4	23.1
Female	23.9	24.6
The average life expectancy in years of a pensioner retiring at age 65, 20 years after the year end date, is as follows:		
Male	24.0	24.8
Female	25.7	26.3

	2019	2018
	£000	£000
Plan assets are as follows:		
Cash and other*	24,221	24,982
Equity instruments		
UK quoted	97,063	80,334
UK unquoted	270	125
Overseas quoted	81,667	73,027
	<u>179,000</u>	<u>153,486</u>
Liability driven investments	41,781	37,857
Debt instruments		
UK public sector quoted - fixed interest	2,411	2,440
UK non-public sector quoted - fixed interest	72,306	66,006
UK quoted - index-linked	24,232	23,351
	<u>98,949</u>	<u>91,797</u>
Derivative financial instruments	2,396	(1,981)
Property	43,659	44,702
Other	1,636	1,572
	<u>391,642</u>	<u>352,415</u>

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

The actual return on plan assets was a gain of £50,117,000 (2018: loss of £16,086,000).

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

## 20 Retirement benefit schemes (continued)

	2019	2018			
	£000	£000			
<b>Plan assets</b>					
At 1 January	352,415	374,017			
Interest income	9,377	8,910			
Return on plan assets, excluding interest income	40,740	(24,996)			
Pension benefits paid and payable	(12,484)	(8,498)			
Contributions paid	1,593	2,975			
Employee contributions	61	63			
Administration cost	(60)	(56)			
At 31 December	<u>391,642</u>	<u>352,415</u>			
<b>Defined benefit obligation</b>					
At 1 January	340,281	358,159			
Current service cost	2,383	4,425			
Administration cost	433	382			
Past service cost	-	1,548			
Interest cost	9,023	8,498			
Pension benefits paid and payable	(12,484)	(8,498)			
Employee contributions	61	63			
Experience losses on liabilities	91	3,849			
Gains from changes in demographic assumptions	(13,569)	(249)			
Losses/(gains) from changes in financial assumptions	61,896	(27,896)			
At 31 December	<u>388,115</u>	<u>340,281</u>			
<b>History of plan assets and liabilities</b>	2019	2018	2017	2016	2015
	£000	£000	£000	£000	£000
Present value of defined benefit obligations	(388,115)	(340,281)	(358,159)	(363,854)	(287,206)
Fair value of plan assets	391,642	352,415	374,017	339,246	303,045
	<u>3,527</u>	12,134	15,858	(24,608)	15,839
Restrictions on asset recognised	-	-	-	(144)	(7,283)
Surplus/(deficit)	<u>3,527</u>	12,134	15,858	(24,752)	8,556

The weighted average duration of the defined benefit obligation at the end of the reporting period is 23 years (2018: 23 years).

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

Assumption	Change in assumption	Increase/(decrease) in plan liabilities	
		2019	2018
		£000	£000
Discount rate	Increase by 0.5%	(42,194)	(34,939)
	Decrease by 0.5%	49,563	40,844
Inflation	Increase by 0.5%	33,808	25,706
	Decrease by 0.5%	(28,008)	(25,506)
Salary increase	Increase by 0.5%	5,600	4,960
	Decrease by 0.5%	(5,569)	(4,750)
Life expectancy	Increase by 1 year	16,377	13,362
	Decrease by 1 year	(16,277)	(13,362)

### 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 20 Retirement benefit schemes (continued)

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:

	2019	2018
	£000	£000
Present value of unfunded obligations and net obligations in the statement of financial position	<u>5,998</u>	<u>5,813</u>
<b>Movements in the net obligations recognised in the statement of financial position are as follows:</b>		
At 1 January	5,813	10,932
Total expense charged to profit or loss	154	259
Net actuarial losses/(gains) during the year, recognised in other comprehensive income	238	(5,262)
Benefits paid	<u>(207)</u>	<u>(116)</u>
At 31 December	<u>5,998</u>	<u>5,813</u>
<b>The amounts recognised through profit or loss are as follows:</b>		
Interest cost	<u>154</u>	<u>259</u>
Total, included in employee benefits expense	<u>154</u>	<u>259</u>

The weighted average duration of the net obligations at the end of the reporting period has reduced to 13.3 years (2018: 13.5 years) primarily due to demographic and assumption changes.

The main actuarial assumptions for the plan are a long-term increase in medical costs of 7.0% (2018: 7.2%) and a discount rate of 1.9% (2018: 2.7%). An actuarial loss of £473,000 has been recognised in the current year due to changes in financial assumptions, primarily due to the fall in discount rate. An actuarial gain of £235,000 has been recognised due to changes in demographic assumptions as explained in relation to the Group's defined benefit plan. In the prior year, an actuarial review of the assumptions used to measure the net obligation for post-employment medical benefits was carried out. As a result of this review, the methodology for setting the medical cost inflation assumption was revised, generating an actuarial gain of £1,760,000. An experience gain of £3,269,000 was recognised as a result of updating for actual scheme experience. The sensitivity analysis below has been determined based on reasonably possible changes in the assumptions occurring at the end of the accounting period assuming that all other assumptions are held constant.

Assumption	Change in assumption	Increase/(decrease) in plan liabilities	
		2019	2018
		£000	£000
Discount rate	Increase by 0.5%	(371)	(360)
	Decrease by 0.5%	409	397
Medical expense inflation	Increase by 0.5%	782	758
	Decrease by 0.5%	(662)	(642)
Life expectancy	Increase by 1 year	529	513
	Decrease by 1 year	(484)	(469)

# NOTES TO THE FINANCIAL STATEMENTS

## 21 Property, plant and equipment

Group	Land and buildings £000	Motor vehicles £000	Furniture, fittings and equipment £000	Computer equipment £000	Right-of-use asset £000	Total £000
<b>Cost or valuation</b>						
At 31 December 2018	2,995	2,354	9,583	8,839	-	23,771
IFRS 16 transition adjustment*	-	(2,095)	74	-	14,253	12,232
At 1 January 2019	2,995	259	9,657	8,839	14,253	36,003
Additions	-	14	1,632	3,034	3,142	7,822
Disposals	-	-	(730)	(76)	(843)	(1,649)
Exchange differences	-	-	(20)	(11)	(106)	(137)
At 31 December 2019	2,995	273	10,539	11,786	16,446	42,039
<b>Depreciation</b>						
At 31 December 2018	-	954	6,389	7,167	-	14,510
IFRS 16 transition adjustment	-	(781)	28	-	781	28
At 1 January 2019	-	173	6,417	7,167	781	14,538
Charge for the year	-	33	1,015	1,399	3,155	5,602
Disposals	-	-	(559)	(75)	(252)	(886)
Exchange differences	-	-	4	(9)	(18)	(23)
At 31 December 2019	-	206	6,877	8,482	3,666	19,231
<b>Net book value at 31 December 2019</b>	<b>2,995</b>	<b>67</b>	<b>3,662</b>	<b>3,304</b>	<b>12,780</b>	<b>22,808</b>
<b>Cost or valuation</b>						
At 1 January 2018	2,805	2,550	8,348	8,424	-	22,127
Additions	-	373	1,323	518	-	2,214
Disposals	-	(569)	(62)	(77)	-	(708)
Revaluation	190	-	-	-	-	190
Exchange differences	-	-	(26)	(26)	-	(52)
At 31 December 2018	2,995	2,354	9,583	8,839	-	23,771
<b>Depreciation</b>						
At 1 January 2018	-	933	5,546	5,966	-	12,445
Charge for the year	-	391	920	1,287	-	2,598
Disposals	-	(370)	(62)	(68)	-	(500)
Exchange differences	-	-	(15)	(18)	-	(33)
At 31 December 2018	-	954	6,389	7,167	-	14,510
<b>Net book value at 31 December 2018</b>	<b>2,995</b>	<b>1,400</b>	<b>3,194</b>	<b>1,672</b>	<b>-</b>	<b>9,261</b>

\*The Group has adopted IFRS 16 from 1 January 2019 as detailed in note 1.

All properties were last revalued at 31 December 2018. Valuations were carried out by Cluttons LLP, an independent professional firm of chartered surveyors, who have recent experience in the location and type of properties. Valuations were carried out using standard industry methodology to determine a fair market value. All properties are classified as level 3 assets.

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

The value of land and buildings on a historical cost basis is £3,098,000 (2018: £3,098,000).

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



# NOTES TO THE FINANCIAL STATEMENTS

## 22 Investment property

Group	2019 £000	2018 £000
Net book value at 1 January	152,182	152,238
Additions - additional expenditure	191	-
Disposals	(327)	-
Fair value losses recognised in profit or loss	(3,900)	(56)
Net book value at 31 December	<u>148,146</u>	<u>152,182</u>

The Group's investment properties were last revalued at 31 December 2019 by Cluttons LLP, an independent professional firm of chartered surveyors who have recent experience in the location and type of properties. Valuations were carried out using standard industry methodology to determine a fair market value. There has been no change in the valuation technique during the year. All properties are classified as level 3 assets. There have been no transfers between investment categories in the current year.

Investment properties are held for long-term capital appreciation rather than short-term sale. Rental income arising from the investment properties owned by the Group amounted to £8,519,000 (2018: £8,238,000) and is included in net investment return. Other operating and administrative expenses include £683,000 (2018: £473,000) relating to investment property, of which £80,000 (2018: £38,000) is in respect of properties not currently generating rental income.

## 23 Financial investments

Financial investments summarised by measurement category are as follows:

	2019		2018	
	Group £000	Parent £000	Group £000	Parent £000
<b>Financial investments at fair value through profit or loss</b>				
Equity securities				
- listed	289,753	-	241,361	-
- unlisted	77,404	11,100	52,099	7,327
Debt securities				
- government bonds	154,245	-	148,053	-
- listed	338,001	-	348,664	-
- unlisted	270	-	125	-
Derivative financial instruments				
- forwards	1,499	-	-	-
- options	1,562	-	5,331	-
	<u>862,734</u>	<u>11,100</u>	<u>795,633</u>	<u>7,327</u>
<b>Financial investments at fair value through other comprehensive income</b>				
Derivative financial instruments				
- forwards	509	-	737	-
	<u>863,243</u>	<u>11,100</u>	<u>796,370</u>	<u>7,327</u>
<b>Loans and receivables</b>				
Cash held on deposit	4,974	-	9,914	-
Other loans	4,542	3,747	17	-
<b>Parent investments in subsidiary undertakings</b>				
Shares in subsidiary undertakings				
- listed	-	-	-	5,027
- unlisted	-	41,649	-	38,349
Total financial investments	<u>872,759</u>	<u>56,496</u>	<u>806,301</u>	<u>50,703</u>
Current	383,158	582	343,840	-
Non-current	489,601	55,914	462,461	50,703

# NOTES TO THE FINANCIAL STATEMENTS

## 24 Derivative financial instruments

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

The Group has also formally designated certain derivatives as a hedge of its net investments in Australia and Canada. A gain of £640,000 (2018: £1,692,000) in respect of these 'hedge' derivatives has been recognised in the hedging reserve within shareholders' equity, as disclosed in note 27. The Group has formally assessed and documented the effectiveness of derivatives that qualify for hedge accounting in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*.

Group	2019		2018		
	Contract/ notional amount £000	Fair value asset £000	Contract/ notional amount £000	Fair value asset £000	Fair value liability £000
<b>Non-hedge derivatives</b>					
<i>Equity/Index contracts</i>					
Options	58,588	1,562	63,077	5,331	-
<i>Foreign exchange contracts</i>					
Forwards (Euro)	116,603	1,499	87,514	-	2,306
<b>Hedge derivatives</b>					
<i>Foreign exchange contracts</i>					
Forwards (Australian dollar)	45,411	250	57,264	492	-
Forwards (Canadian dollar)	30,456	259	27,157	245	-
	<b>251,058</b>	<b>3,570</b>	235,012	6,068	2,306

Included within Equity/Index contracts are options with a contract/notional value of £17,997,000 (2018: £22,493,000), and fair value asset of £734,000 (2018: £2,348,000), which expire in greater than one year. All other derivatives in the current and prior period expire within one year.

The 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 23) and derivative fair value liabilities are recognised within other liabilities (note 33).

# NOTES TO THE FINANCIAL STATEMENTS

## 25 Other assets

	2019		2018	
	Group £000	Parent £000	Group £000	Parent £000
<b>Receivables arising from insurance and reinsurance contracts</b>				
- due from contract holders	41,378	-	36,594	-
- due from agents, brokers and intermediaries	56,549	-	47,026	-
- due from reinsurers	11,177	-	11,612	-
<b>Other receivables</b>				
- accrued interest and rent	4,519	-	4,696	-
- other prepayments and accrued income	4,872	-	5,648	-
- amounts owed by related parties	89	6,050	138	4,241
- debtors arising from broking activities	16,114	-	14,732	-
- net investment in finance leases	366	-	-	-
- other debtors	15,190	-	12,050	-
	<b>150,254</b>	<b>6,050</b>	<b>132,496</b>	<b>4,241</b>
Current	146,644	250	129,167	241
Non-current	3,610	5,800	3,329	4,000

The Group has recognised a net credit of £31,000 (2018: net charge of £30,000) in other operating and administrative expenses in the statement of profit or loss for the impairment and reversal of impairment of its trade and other receivables during the year.

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

Included within other receivables of the Group is £1,255,000 (2018: £1,210,000) classified as contract assets, and £1,867,000 (2018: £1,293,000) classified as receivables in accordance with IFRS 15.

<b>Movement in the Group allowance for doubtful debts</b>	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
Balance at 1 January	168	188
Movement in the year	(23)	(20)
Balance at 31 December	<b>145</b>	<b>168</b>

As at 31 December 2019 the Parent had £nil (2018: £nil) loss allowance under IFRS 9.

Included within trade receivables of the Group is £11,557,000 (2018: £8,144,000) overdue but not impaired, of which £9,808,000 (2018: £7,013,000) is not more than three months overdue at the reporting date.

## 26 Cash and cash equivalents

	2019		2018	
	Group £000	Parent £000	Group £000	Parent £000
Cash at bank and in hand	70,575	831	89,063	2,942
Short-term bank deposits	27,794	174	45,054	3,010
	<b>98,369</b>	<b>1,005</b>	<b>134,117</b>	<b>5,952</b>

Included within short-term bank deposits of the Group are cash deposits of £1,007,000 (2018: £2,299,000) pledged as collateral by way of cash margins on open derivative contracts and cash to cover derivative liabilities.

Included within Group cash at bank and in hand are cash deposits of £3,821,000 (2018: £4,090,000) pledged as collateral by way of cash calls from reinsurers, and £17,276,000 (2018: £14,272,000) of restricted cash held on an agency basis.

# NOTES TO THE FINANCIAL STATEMENTS

## 27 Called up share capital

	2019 £000	2018 £000
<b>Issued, allotted and fully paid</b>		
Ordinary share capital:		
20,000,000 shares of £1 each	<u>20,000</u>	<u>20,000</u>

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

## 28 Translation and hedging reserve

Group	Translation reserve £000	Hedging reserve £000	Total £000
<b>At 1 January 2019</b>	14,940	4,131	19,071
Losses on currency translation differences	(1,368)	-	(1,368)
Gains on net investment hedges	-	640	640
Attributable tax	-	(19)	(19)
<b>At 31 December 2019</b>	<u>13,572</u>	<u>4,752</u>	<u>18,324</u>
<b>At 1 January 2018</b>	18,022	2,626	20,648
Losses on currency translation differences	(3,082)	-	(3,082)
Gains on net investment hedges	-	1,692	1,692
Attributable tax	-	(187)	(187)
<b>At 31 December 2018</b>	<u>14,940</u>	<u>4,131</u>	<u>19,071</u>

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.

## 29 Non-controlling interests

Non-controlling interests comprise 96.8% (2018: 96.8%) of the 106,450,000 (2018: 106,450,000) 8.625% Non-Cumulative Irredeemable Preference shares (NclPs) in Ecclesiastical Insurance Office plc.

The Parent did not acquire any NclPs during 2019. Through the course of 2018, the Parent acquired NclPs with a nominal value of £710,000 for a cash consideration of £1,035,000, paid to minority interest shareholders.

Holders of the NclPs 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 30 Insurance liabilities and reinsurance assets

Group	2019 £000	2018 £000
<b>Gross</b>		
Claims outstanding	481,669	457,319
Unearned premiums	203,096	180,766
Long-term business provision	262,500	239,440
Total gross insurance liabilities	<u>947,265</u>	<u>877,525</u>
<b>Recoverable from reinsurers</b>		
Claims outstanding	89,982	78,731
Unearned premiums	69,574	61,615
Long-term business provision	183,288	157,476
Total reinsurers' share of insurance liabilities	<u>342,844</u>	<u>297,822</u>
<b>Net</b>		
Claims outstanding	391,687	378,588
Unearned premiums	133,522	119,151
Long-term business provision	79,212	81,964
Total net insurance liabilities	<u>604,421</u>	<u>579,703</u>
<b>Gross insurance liabilities</b>		
Current	369,890	334,605
Non-current	577,375	542,920
<b>Reinsurance assets</b>		
Current	129,995	115,602
Non-current	212,849	182,220

### (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.

# NOTES TO THE FINANCIAL STATEMENTS

## 30 Insurance liabilities and reinsurance assets (continued)

### (iv) Discounting

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

Geographical territory	Discount rate		Mean term of discounted liabilities	
	2019	2018	2019	2018
UK and Ireland	1.3% to 2.2%	1.8% to 3.0%	17	17
Canada	1.9% to 2.0%	2.2% to 2.7%	12	15
Australia	1.2%	2.3%	4	5

The above rates of interest are based on government bond yields of the relevant currency and term at the reporting date. Adjustments are made, where appropriate, to reflect portfolio assets held and to allow for future investment expenses. At the year end the undiscounted gross outstanding claims liability was £516,068,000 for the Group (2018: £505,147,000).

The impact of discount rate changes on the outstanding claims liability is presented within net investment return (note 8).

At 31 December 2019, it is estimated that a fall of 1% in the discount rates used would increase the Group's net outstanding claims liabilities by £17,065,000 (2018: £15,432,000). Financial investments backing these liabilities are not hypothecated across general insurance classes of business. The sensitivity of Group profit or loss and other equity reserves to interest rate risk, taking into account the mitigating effect on asset values is provided in note 4(h).

### (v) Assumptions

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

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

### (vi) Changes in assumptions

There are no significant changes in assumptions.

### (vii) Sensitivity of results

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

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

		2019		2018	
		Gross £000	Net £000	Gross £000	Net £000
Liability	- UK	19,700	18,500	19,900	18,800
	- Overseas	12,100	10,200	10,800	9,100
Property	- UK	7,900	4,800	7,200	4,200
	- Overseas	4,900	1,900	4,100	2,100
Motor	- UK	200	200	200	200

# NOTES TO THE FINANCIAL STATEMENTS

## 30 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Estimate of gross ultimate claims</b>											
At end of year	84,476	82,095	100,612	81,725	61,901	46,464	51,738	50,736	48,759	47,945	
One year later	75,550	76,371	88,046	80,027	50,571	43,582	46,073	46,885	40,461		
Two years later	62,239	71,543	78,196	69,860	48,327	40,337	41,041	41,883			
Three years later	66,422	68,587	72,516	66,192	45,495	33,804	38,468				
Four years later	61,330	60,841	67,980	60,174	37,064	29,436					
Five years later	62,074	59,914	62,712	56,912	34,606						
Six years later	61,871	57,950	61,213	54,901							
Seven years later	60,155	57,939	60,560								
Eight years later	60,037	57,790									
Nine years later	59,199										
Current estimate of ultimate claims	59,199	57,790	60,560	54,901	34,606	29,436	38,468	41,883	40,461	47,945	465,249
Cumulative payments to date	(51,938)	(49,973)	(53,237)	(44,655)	(23,826)	(14,559)	(13,481)	(9,152)	(4,973)	(1,478)	(267,272)
Outstanding liability	7,261	7,817	7,323	10,246	10,780	14,877	24,987	32,731	35,488	46,467	197,977
Effect of discounting											(10,192)
Present value											187,785
Discounted liability in respect of earlier years											129,852
Total discounted gross liability (for liability classes) included in insurance liabilities in the statement of financial position											317,637
<b>Estimate of net ultimate claims</b>											
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
At end of year	73,218	75,302	88,247	76,729	59,633	42,739	47,402	45,920	44,053	44,230	
One year later	64,796	72,336	79,272	66,475	47,690	40,397	41,631	41,706	37,456		
Two years later	57,758	68,057	73,735	60,075	47,428	37,740	37,740	37,797			
Three years later	59,353	66,822	69,837	55,710	41,494	32,297	36,337				
Four years later	55,975	60,314	65,872	51,482	35,164	28,506					
Five years later	57,012	59,521	60,800	49,196	33,233						
Six years later	57,070	57,641	59,338	47,518							
Seven years later	55,778	57,591	59,061								
Eight years later	55,827	57,439									
Nine years later	55,112										
Current estimate of ultimate claims	55,112	57,439	59,061	47,518	33,233	28,506	36,337	37,797	37,456	44,230	436,689
Cumulative payments to date	(47,930)	(49,769)	(51,923)	(37,447)	(22,646)	(14,559)	(13,450)	(9,152)	(4,972)	(1,478)	(253,326)
Outstanding liability	7,182	7,670	7,138	10,071	10,587	13,947	22,887	28,645	32,484	42,752	183,363
Effect of discounting											(10,192)
Present value											173,171
Discounted liability in respect of earlier years											117,843
Total discounted net liability (for liability classes) included in insurance liabilities in the statement of financial position											291,014

# NOTES TO THE FINANCIAL STATEMENTS

## 30 Insurance liabilities and reinsurance assets (continued)

### (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:

	2019	2018
UK and overseas government bonds: non-linked	0.61%	0.98%
UK and overseas government bonds: index-linked	-2.18%	-1.89%
Corporate debt instruments: index-linked	-1.64%	-1.38%

The investment return assumption is determined by calculating an overall yield on all cash flows projected to occur from the portfolio of financial assets which are assumed to back the relevant class of liabilities.

#### Funeral plans renewal expense level and inflation

Numbers of policies in force and both projected and actual expenses have been considered when setting the base renewal expense level. The unit renewal expense assumption for this business is £2.50 per annum (2018: £2.40 per annum). Additionally, now the in-force policy volumes are expected to fall, much of the expenses of the long-term insurance business have been reserved for in a separate exercise. A reserve for these expenses is held at £5.7 million (2018: £5.4 million).

Expense inflation is set with reference to the index-linked UK government bond rates of return, and published figures for earnings inflation, and is assumed to be 4.08% per annum (2018: 4.22%).

#### Tax

It has been assumed that tax legislation and rates applicable at 1 January 2020 will continue to apply. All in-force business is classed as protection business and is expected to be taxed on a profits basis.

#### (ii) Changes in assumptions

Projected investment returns have been revised in line with the changes in the actual yields of the underlying assets. As a result, liabilities have increased by £2.5 million (2018: £0.3 million increase).

The assumed future expenses of running the business have been revised based on expenses that are expected to be incurred by the long-term insurance business. The effect on insurance liabilities of the changes to renewal expense assumptions (described above) was a £0.4 million increase (2018: £1.1 million decrease).

There has been no change in the mortality assumptions.

#### (iii) Sensitivity analysis

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

Variable	Change in variable	Potential increase/ (decrease) in the result	
		2019 £000	2018 £000
Deterioration in annuitant mortality	+10%	1,000	900
Improvement in annuitant mortality	-10%	(1,100)	(1,000)
Increase in fixed interest/cash yields	+1% pa	500	200
Decrease in fixed interest/cash yields	-1% pa	(600)	(600)
Worsening of base renewal expense level	+10%	(700)	(600)
Improvement in base renewal expense level	-10%	600	600
Increase in expense inflation	+1% pa	(900)	(900)
Decrease in expense inflation	-1% pa	700	700



# NOTES TO THE FINANCIAL STATEMENTS

## 30 Insurance liabilities and reinsurance assets (continued)

### (c) Movements in insurance liabilities and reinsurance assets

Group	Gross £000	Reinsurance £000	Net £000
<b>Claims outstanding</b>			
At 1 January 2019	457,319	(78,731)	378,588
Cash (paid)/received for claims settled in the year	(139,221)	40,808	(98,413)
Change in liabilities/reinsurance assets			
- arising from current year claims	189,646	(58,688)	130,958
- arising from prior year claims	(32,165)	5,888	(26,277)
- change in discount rate	10,549	(599)	9,950
Exchange differences	(4,459)	1,340	(3,119)
At 31 December 2019	481,669	(89,982)	391,687
<b>Provision for unearned premiums</b>			
At 1 January 2019	180,766	(61,615)	119,151
Increase in the period	204,691	(70,165)	134,526
Release in the period	(180,862)	61,416	(119,446)
Exchange differences	(1,499)	790	(709)
At 31 December 2019	203,096	(69,574)	133,522
<b>Long-term business provision</b>			
At 1 January 2019	239,440	(157,476)	81,964
Effect of new business in the year	31,896	(31,896)	-
Effect of claims during the year	(19,473)	13,740	(5,733)
Changes in assumptions	429	(65)	364
Change in discount rate	4,387	(1,904)	2,483
Other movements	5,821	(5,687)	134
At 31 December 2019	262,500	(183,288)	79,212
<b>Claims outstanding</b>			
At 1 January 2018	509,319	(102,635)	406,684
Cash (paid)/received for claims settled in the year	(155,137)	48,691	(106,446)
Change in liabilities/reinsurance assets			
- arising from current year claims	175,127	(53,855)	121,272
- arising from prior year claims	(62,905)	27,667	(35,238)
- change in discount rate	(4,226)	(201)	(4,427)
Exchange differences	(4,859)	1,602	(3,257)
At 31 December 2018	457,319	(78,731)	378,588
<b>Provision for unearned premiums</b>			
At 1 January 2018	171,788	(56,573)	115,215
Increase in the period	181,373	(61,854)	119,519
Release in the period	(170,368)	56,090	(114,278)
Exchange differences	(2,027)	722	(1,305)
At 31 December 2018	180,766	(61,615)	119,151
<b>Long-term business provision</b>			
At 1 January 2018	216,206	(128,065)	88,141
Effect of new business in the year	36,998	(36,998)	-
Effect of claims during the year	(17,982)	11,732	(6,250)
Changes in assumptions	(943)	116	(827)
Change in discount rate	494	(211)	283
Other movements	4,667	(4,050)	617
At 31 December 2018	239,440	(157,476)	81,964

# NOTES TO THE FINANCIAL STATEMENTS

## 31 Provisions for other liabilities and contingent liabilities

Group	Regulatory and legal provisions £000	Contingent consideration £000	Other provisions £000	Total £000
At 31 December 2018	3,371	164	2,443	5,978
IFRS 16 transition adjustment*	-	-	503	503
At 1 January 2019	3,371	164	2,946	6,481
Additional provisions	4,778	-	-	4,778
Used during year	(5,512)	(141)	(94)	(5,747)
Not utilised	(72)	-	-	(72)
Exchange differences	-	-	(5)	(5)
At 31 December 2019	2,565	23	2,847	5,435
Current	2,565	23	1,706	4,294
Non-current	-	-	1,141	1,141

\*The Group has adopted IFRS 16 from 1 January 2019 as detailed in note 1.

### 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 that completed in 2017 and the acquisition of certain assets of Equicover Limited as disclosed in note 16.

### Other provisions

The provision for other costs relates to costs in respect of dilapidations 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 32 Deferred tax

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

Group	Unrealised gains on investments £000	Net retirement benefit assets £000	Equalisation reserve £000	Other differences £000	Total £000
At 1 January 2018	34,399	809	2,994	(1,771)	36,431
Credited to profit or loss	(6,186)	(538)	(790)	(96)	(7,610)
Charged to other comprehensive income	-	789	-	95	884
Exchange differences	13	-	-	48	61
At 31 December 2018	28,226	1,060	2,204	(1,724)	29,766
Charged/(credited) to profit or loss	6,720	(149)	(770)	(851)	4,950
Credited to other comprehensive income	-	(1,349)	-	(110)	(1,459)
Exchange differences	17	-	-	74	91
At 31 December 2019	34,963	(438)	1,434	(2,611)	33,348

**Parent**

The deferred tax liability, shown below, arises on unrealised gains on investments. The increase of £225,000 (2018: £166,000), 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:

	2019		2018	
	Group £000	Parent £000	Group £000	Parent £000
Deferred tax liabilities	36,532	883	32,323	658
Deferred tax assets	(3,184)	-	(2,557)	-
	33,348	883	29,766	658
Current	2,202	-	1,619	-
Non-Current	31,146	883	28,147	658

The Group has unused tax losses of £13,361,000 (2018: £15,832,000) 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 33 Other liabilities

	2019		2018	
	Group £000	Parent £000	Group £000	Parent £000
Creditors arising out of direct insurance operations	2,215	-	1,183	-
Creditors arising out of reinsurance operations	26,652	-	23,764	-
Derivative liabilities	-	-	2,306	-
Creditors arising from broking activities	21,871	-	17,958	-
Other creditors	18,978	-	16,531	-
Amounts owed to related parties	56	338	1	230
Accruals	28,898	167	27,943	105
	<b>98,670</b>	<b>505</b>	<b>89,686</b>	<b>335</b>
Current	98,251	505	89,327	335
Non-current	419	-	359	-

Derivative liabilities are in respect of equity futures contracts and are detailed in note 24.

Deferred income of the Group is a current liability in both the current and prior year.

Included within deferred income of the Group is £278,000 (2018: £112,000) classified as contract liabilities in accordance with IFRS 15.

## 34 Leases

### Group as a lessee

The Group has lease contracts for various items of property, motor vehicles and other equipment used in its operations. Leases of property generally have terms of up to 15 years, while motor vehicles and other equipment generally have lease terms between 2 and 6 years. Lease terms are negotiated on an individual basis and contain different terms and conditions, but do not impose any covenants other than security interests. The Group's obligations under its leases are secured by the lessor's title to the leased assets, and leased assets may not be used as security for borrowing purposes.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period.

Group	Land and buildings £000	Motor vehicles £000	Other equipment £000	Total £000
At 31 December 2018	-	-	-	-
Transition to IFRS 16	11,814	1,362	297	13,473
At 1 January 2019	11,814	1,362	297	13,473
Additions	2,864	128	150	3,142
Disposals	(442)	(128)	(21)	(591)
Depreciation expense	(2,712)	(323)	(120)	(3,155)
Exchange differences	(87)	(1)	(1)	(89)
At 31 December 2019	<b>11,437</b>	<b>1,038</b>	<b>305</b>	<b>12,780</b>

Set out below are the carrying amounts of lease obligations:

Group	2019 £000
Current	3,242
Non-current	11,268
	<b>14,510</b>

Lease obligations are presented within borrowings in the Statement of Financial Position. In the prior year, the Group only recognised lease liabilities in relation to leases that were classified as finance leases under IAS 17, Leases.

# NOTES TO THE FINANCIAL STATEMENTS

## 34 Leases (continued)

Group profit for the year has been arrived at after charging the following amounts in respect of lease contracts:

	2019 £000
Depreciation expense of right of use assets	3,155
Interest expense on lease liabilities	671
	<u>3,826</u>

The Group had total cash outflows for leases, including interest, of £3,706,000 in 2019. The future cash outflows relating to leases that have not yet commenced are disclosed in note 35.

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised, as disclosed in note 2.

At the prior period reporting date the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2018 £000
Within 1 year	3,848
Between 1 & 5 years	11,802
After 5 years	6,032
	<u>21,682</u>
Operating lease rentals charged to profit or loss during the year	3,908
Total future minimum sublease payments expected to be received under non-cancellable subleases	506

### Group as a lessor

#### *Finance leases*

The Group has entered into a finance leasing arrangement as a lessor to sublease a commercial office space no longer occupied by the Group. The term of the finance lease is 3 years. The contract does not include an extension or early termination option.

	2019 £000
Year 1	134
Year 2	134
Year 3	111
Undiscounted lease payments	<u>379</u>
Less: unearned finance income	<u>(13)</u>
Net investment in the lease	<u>366</u>

Net investment in the lease is recognised in other assets as shown in note 25.

Group profit for the year has been arrived at after crediting the following amounts in respect of finance lease contracts:

Group	2019 £000
Selling profit for finance leases	21
Finance income on the net investment in finance leases	8
	<u>29</u>

The Group did not have lessor finance leasing arrangements in 2018.

# NOTES TO THE FINANCIAL STATEMENTS

## 34 Leases (continued)

### *Operating leases*

The Group has entered into operating leases on its investment property portfolio. These leases have terms of up to 50 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions. The lessee is also required to provide a residual value guarantee on the properties. Rental income on these properties recognised by the Group during the year is disclosed in note 21.

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	2019 £000	2018 £000
Year 1	8,234	8,019
Year 2	7,656	7,347
Year 3	6,850	6,804
Year 4	6,455	6,056
Year 5	6,160	5,739
After 5 years	29,065	32,478
	<b>64,420</b>	<b>66,443</b>

## 35 Commitments

At the year end, the Group had capital commitments of £2,559,000 (2018: £8,712,000) relating to computer software and no capital commitments (2018: £1,207,000) relating to furniture, fittings and equipment. The Parent had no capital commitments in the current and prior year.

The Group has a lease contract that has not yet commenced as at 31 December 2019. The lease is expected to commence in 2020 and has a term of 15 years. The expected cash outflow is £1,300,000 per annum.

# NOTES TO THE FINANCIAL STATEMENTS

## 36 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 2019 is as follows:

Company	Company Registration Number	Share Capital	Holding of shares by		Activity
			Company	Group	
<b>Subsidiary undertakings</b>					
<i>Incorporated in the United Kingdom</i>					
Ecclesiastical Insurance Office plc *	24869	Ordinary Preference	100% 3.2%	-	Insurance
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 service
EdenTree Investment Management Limited *	2519319	Ordinary	-	100%	Investment management
EdenTree Asset Management Limited *	11923964	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
Robertson-McIsaac Limited ** ^ ^	03544899	Ordinary	-	100%	Insurance agents and brokers
Lycetts Holdings Limited **	05866203	Ordinary	100%	-	Investment holding company
South Essex Insurance Brokers Limited *	06317314	Ordinary	-	100%	Insurance agents and brokers
South Essex Insurance Holdings Limited *	06317313	Ordinary	-	100%	Investment holding company
<i>Incorporated in Australia</i>					
Ansvar Insurance Limited ***	007216506	Ordinary	-	100%	Insurance
Ansvar Risk Management Services Pty Limited ***	623695054	Ordinary	-	100%	Risk management services
Ansvar Insurance Services Pty Limited *** †	162612286	Ordinary	-	100%	Dormant company
<b>Associated undertakings</b>					
<i>Incorporated in the United Kingdom</i>					
Lloyd & Whyte Group Limited****	01143899	Ordinary	20%	-	Insurance agents and brokers
* 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					
**** Registered office: Affinity House, Bindon Road, Taunton, Somerset, TA2 6AA					
^ Exempt from audit under s480 of the Companies Act 2006					
^ ^ Exempt from audit under s479 of the Companies Act 2006					
† Exempt from audit					

# NOTES TO THE FINANCIAL STATEMENTS

## 37 Related party transactions

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

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

	Parent £000	Subsidiaries £000	Other related parties £000
<b>2019</b>			
<b>Group</b>			
Trading, investment and other income, including recharges, and amounts received	242	-	1,443
Trading, investment and other expenditure, including recharges, and amounts paid	-	-	5,828
Amounts owed by related parties	-	-	89
Amounts owed to related parties	-	-	56
<b>Parent</b>			
Trading, investment and other income, including recharges, and amounts received	-	8,782	455
Trading, investment and other expenditure, including recharges, and amounts paid	-	461	5,828
Amounts owed by related parties	-	6,050	-
Amounts owed to related parties	-	38,040	56
<b>2018</b>			
<b>Group</b>			
Trading, investment and other income, including recharges, and amounts received	242	-	1,167
Trading, investment and other expenditure, including recharges, and amounts paid	-	-	145
Amounts owed by related parties	-	-	138
Amounts owed to related parties	-	-	1
<b>Parent</b>			
Trading, investment and other income, including recharges, and amounts received	-	383	194
Trading, investment and other expenditure, including recharges, and amounts paid	-	368	145
Amounts owed by related parties	-	4,209	32
Amounts owed to related parties	-	29,688	-

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.

Trading, investment and other expenditure by the Group and Parent consists of loans to related parties totalling £5,828,000 (2018: £145,000).

Amounts owed to related parties by the Parent includes borrowings of £37,758,000 (2018: £29,458,000) and amounts classified within other liabilities of £338,000 (2018: £230,000) disclosed in note 33.

The remuneration of the directors and the key management personnel of the Group, is disclosed in note 13.

Charitable grants paid to the Group's parent undertaking are disclosed in note 15. Contributions paid to and amounts received from the Group's defined benefit pension schemes are disclosed in note 20.



# NOTES TO THE FINANCIAL STATEMENTS

## 38 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. Net inflows are the difference between the funds invested (gross inflows) less funds withdrawn (redemptions) made during the year by third parties in a range of funds EdenTree Investment Management Limited offers. Regulatory capital is covered in note 4(i).

		2019						Total £000
		Insurance		Inv'tment return	Inv'tment mngt	Broking and Advisory	Corporate costs	
		General £000	Long- term £000	£000	£000	£000	£000	
<b>Revenue</b>								
Gross written premiums		393,965	31,889	-	-	-	-	425,854
Outward reinsurance premiums		(152,886)	(31,902)	-	-	-	-	(184,788)
Net change in provision for unearned premiums		(15,080)	-	-	-	-	-	(15,080)
Net earned premiums	[1]	225,999	(13)	-	-	-	-	225,986
Fee and commission income	[2]	49,368	-	-	12,798	34,976	-	97,142
Other operating income		544	-	-	-	-	-	544
Net investment return		-	989	73,895	19	801	-	75,704
<b>Total revenue</b>		275,911	976	73,895	12,817	35,777	-	399,376
<b>Expenses</b>								
Claims and change in insurance liabilities		(157,481)	(37,146)	-	-	-	-	(194,627)
Reinsurance recoveries		52,800	36,819	-	-	-	-	89,619
Fees, commissions and other acquisition costs	[3]	(72,383)	(14)	-	(811)	(580)	-	(73,788)
Other operating and administrative expenses	[4]	(78,829)	(300)	(3,453)	(12,390)	(37,234)	[5] (17,850)	(150,056)
<b>Total operating expenses</b>		(255,893)	(641)	(3,453)	(13,201)	(37,814)	(17,850)	(328,852)
Operating profit	[6]	20,018	335	70,442	(384)	(2,037)	(17,850)	70,524
Finance costs		(531)	-	-	-	(176)	-	(707)
Share of profit after tax of associate		-	-	-	-	59	-	59
<b>Profit before tax</b>		19,487	335	70,442	(384)	(2,154)	(17,850)	69,876
Underwriting profit	[6]	20,018						
Combined operating ratio		91.1%						
Net expenses (= [2] + [3] + [4] + [5])	[7]	(119,694)						
<b>Net expense ratio</b>		53%						

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

The Group uses the industry standard net 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  $- [7] / [1]$ .

# NOTES TO THE FINANCIAL STATEMENTS

## 38 Reconciliation of Alternative Performance Measures (continued)

		Insurance		Inv'tment return	2018 Inv'tment mngt	Broking and Advisory	Corporate costs	Total
		General	Long-term					
		£000	£000					
<b>Revenue</b>								
Gross written premiums		356,950	37,006	-	-	-	-	393,956
Outward reinsurance premiums		(137,640)	(36,985)	-	-	-	-	(174,625)
Net change in provision for unearned premiums		(5,241)	-	-	-	-	-	(5,241)
Net earned premiums	[1]	214,069	21	-	-	-	-	214,090
Fee and commission income	[2]	41,346	-	-	12,601	34,287	-	88,234
Other operating income		1,039	-	-	-	-	-	1,039
Net investment return		-	1,573	2,241	13	870	-	4,697
<b>Total revenue</b>		<b>256,454</b>	<b>1,594</b>	<b>2,241</b>	<b>12,614</b>	<b>35,157</b>	<b>-</b>	<b>308,060</b>
<b>Expenses</b>								
Claims and change in insurance liabilities		(112,222)	(39,683)	-	-	-	-	(151,905)
Reinsurance recoveries		26,188	40,032	-	-	-	-	66,220
Fees, commissions and other acquisition costs	[3]	(65,687)	(15)	-	(943)	(752)	-	(67,397)
Other operating and administrative expenses	[4]	(75,543)	(286)	(2,989)	(10,730)	(31,858) [5]	(16,829)	(138,235)
<b>Total operating expenses</b>		<b>(227,264)</b>	<b>48</b>	<b>(2,989)</b>	<b>(11,673)</b>	<b>(32,610)</b>	<b>(16,829)</b>	<b>(291,317)</b>
Operating profit	[6]	29,190	1,642	(748)	941	2,547	(16,829)	16,743
Finance costs		(329)	-	-	-	-	-	(329)
<b>Profit before tax</b>		<b>28,861</b>	<b>1,642</b>	<b>(748)</b>	<b>941</b>	<b>2,547</b>	<b>(16,829)</b>	<b>16,414</b>
Underwriting profit	[6]	29,190						
Combined operating ratio		86.4%						
Net expenses (= [2] + [3] + [4] + [5])	[7]	(116,713)						
<b>Net expense ratio</b>		<b>55%</b>						

# NOTES TO THE FINANCIAL STATEMENTS

## 39 Events after the balance sheet date

In early 2020, the existence of a new coronavirus, Covid-19, was confirmed. This virus has since spread across the globe and on 11 March 2020 was characterised by the World Health Organization as a pandemic. As countries and their Governments react to help contain or delay the spread of the virus, this has led to an increase in economic uncertainty, presenting the Group with increased market and investment risk and operational risk.

The Group considers the emergence and spread of Covid-19 to be a non-adjusting post balance sheet event under IAS 10, *Events After the Reporting Period*. Consequently, there is no impact on the recognition and measurement of assets and liabilities at 31 December 2019.

The overall financial impact of Covid-19 on the IFRS results cannot be reliably estimated at this time. However, Covid-19 has affected some key market indicators that affect the Group's results. These have been listed below, along with an unaudited estimate of their impact on the Group's IFRS financial investments:

- Listed Equity prices: Listed Equity prices have seen some significant falls since 31 December 2019, with some UK leading indices showing falls of up to 25%. As at 31 March 2020 the value of the Group's listed equities has dropped by approximately 23%.
- Yield reductions: Yields on fixed income securities, such as Government bonds, have generally fallen since the start of the year across our exposure. The Group's exposure to Government bonds is limited to UK, Australia and Canada. Since 31 December 2019 the value of our Government bonds is estimated to have reduced by approximately 6% as at 31 March 2020.
- Listed debt securities: The Group's primary holding of listed debt securities are corporate bonds. Corporate bond spreads have generally widened since 31 December 2019. This impact of this on the Group's holding, which covers UK, Australia and Canada, has reduced the book value of our listed debt securities by approximately 5% as at 31 March 2020.

The Group has taken action to ensure its businesses continue to operate effectively, safeguard its employees and meet the needs of its customers. The Group continues to expect to meet regulatory requirements and has responded to any enquiries that our regulators have asked regarding management's assessment of the impact of Covid-19 on solvency and operational matters. Covid-19 has impacted how the businesses operate. Business continuity plans have been used which have ensured employees are equipped to work in a remote environment and are able to continue to support our customers, work with our key suppliers and perform other functions of the Group. The Group and its businesses have continued to deliver services and expect to continue to do so over the foreseeable future.

The strength of the capital position means that despite the global economic disruption Covid-19 has caused, Ecclesiastical is well capitalised and can withstand significant market disruption. The Group's solvency is monitored regularly, has not fallen below risk appetite and management have appropriate actions available to them if required to protect the long-term interests of stakeholders. The Group's Solvency II Capital Cover was estimated to be over 170% (unaudited) at 31 March 2020 (31 December 2019: 189% (unaudited)) and Ecclesiastical continues to have a capital position in excess of the regulatory levels required which are designed to provide a strong level of protection for policyholders.

The Group continues to closely monitor the heightened risks arising from Covid-19 and take all appropriate steps to manage the impact on customers, employees and other stakeholders.