Company Number 01718196

ECCLESIASTICAL

ECCLESIASTICAL INSURANCE GROUP plc

2020 ANNUAL REPORT

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DIRECTORS AND COMPANY INFORMATION

Directors	* R. D. C. Henderson *Chairman* * F. X. Boisseau D. P. Cockrem *Group Chief Financial Officer* M. C. J. Hews *Group Chief Executive* * Sir S. M. J. Lamport * N. P. Maidment * A. J. McIntyre * C. J. G. Moulder *Senior Independent Director* * C. H. Taylor S. J. Whyte *Deputy Group Chief Executive* * A. Winther
Company Secretary	R. J. Hall
Registered and Head Office	Benefact House, 2000 Pioneer Avenue, Gloucester Business Park, Brockworth, Gloucester, GL3 4AW Tel: 0845 777 3322
Company Registration Number	01718196
Investment Management Office	24 Monument Street, London EC3R 8AJ Tel: 0800 358 3010
Auditor	PricewaterhouseCoopers LLP Bristol

* *Non-executive directors*

STRATEGIC REPORT

The directors present the Strategic Report of the Company for the year ended 31 December 2020.

Group Chief Executive's Review
We are driven by the pursuit of excellence, which we achieve through our unrivalled knowledge of our specialist markets and a commitment to customer service.

Throughout our long history, we have been unwavering in our focus and determination to serve our customers and support those in society who need us most. This time last year, the impact of Covid-19 was just beginning to be felt across the globe. None of us could have predicted just how much of an impact it would have on our lives. Businesses closed, financial markets collapsed and at times that most basic of human needs, social contact, all but ceased. The global Covid-19 pandemic has affected every aspect of our lives - economically, politically and socially- and has changed the way we live and work forever.

Extraordinary times require an extraordinary response and our businesses responded to this most unprecedented challenge in the best way possible. Together, we rose above the challenges to dream even bigger, and perform even better. Through it all, we never lost sight of our purpose, our strategy and our ambition to drive and grow our business in order to make an even bigger contribution to the greater good of the communities in which we live and work.

Continuing to build a Movement for Good
Thanks to the incredible support of our customers, brokers, business partners, employees and all our supporters, we have now given over £99m to charity, and are about to meet the £100m target we set ourselves back in 2017. This means that over the last five years our rolling average donations have exceeded £20m per annum something of which all our supporters can be proud.

Indeed in 2020, in addition to over £23m of funds awarded through our parent Allchurches Trust, the Group gave over £2.7m to support charities and communities during this difficult time, including:

- £1m through our annual corporate giving programme Movement for Good awards which saw 500 charities receive £1,000 grants and 10 charities receive longer- term funding of £50,000 – and a further £120,000 through our 12 days of giving campaign
- Over £200,000 to a combination of the industry's Covid-19 Support Fund, The National Emergency Trust and the Disaster Emergency Committee's Coronavirus Crisis Appeal
- Over £250,000 via local charitable programmes such as our "Community Impact Grants" in Canada and our "Community Education Programme" in Australia

We launched Fundraising Hubs to support Church and Charities raise much needed financial support, and undertook a programme to encourage "Acts of Kindness" across the group for those in need. These acts, mostly unsung, range from providing meals to the homeless or those in isolation, through to the establishment of a Hygiene Bank by our Ansvar office in Eastbourne, and for which Ansvar have been recognised as "Pro-Bono Company of the Year".

It's very humbling to think we've been able to support so many good causes during such a challenging period. For many frontline charities, their work has never been more vital, and they are often helping the most vulnerable members of society. I'm proud that we've been able to make a difference to so many lives.

Our charitable purpose drives us to help those most in need and we have now increased our aspirations and are focused to exceed our original £100m charitable giving target by September 2021. We invite others to join us in this goal. By working together, and with these charities, we can help to build a movement for good.

Delivering for our customers
I am immensely proud of the way our colleagues showed great courage and resilience to continue to deliver for our customers. All our colleagues quickly and successfully moved to remote working and we adapted our plans to enable our response to the pandemic, showing flexibility and agility across our businesses. This was all achieved while colleagues faced many personal challenges of their own. The Board and I are immensely grateful for the hard work and sacrifice of our colleagues who went above and beyond to ensure customer service was enhanced, and our charitable purpose maintained. Throughout the pandemic, we have made the health, safety and wellbeing of our employees a key priority. We invested in new systems to enable different ways of working, and provided home working and mental health and wellbeing support. We decided not to take financial benefit from the Government's furlough scheme.

I also recognise that this has been a challenging time for many of our customers. Many businesses, charities, schools, nurseries and churches have suffered financially due to the impact of successive lockdowns. We introduced a series of measures to support our customers and partners during this difficult period. These included paying claims quickly where cover was in place, offering enhanced cover, free of charge, to many of our customers, and providing credit support to customers in financial difficulty. We also introduced online information hubs, as well as pandemic-related risk management advice.

The insurance industry came under intense scrutiny as a result of the test case on Business Interruption (BI) insurance brought by the Financial Conduct Authority. We were always clear that our BI policies were never intended to cover pandemics and we welcomed the certainty and clarity provided by the High Court's judgment in our favour. Nevertheless, the case has damaged trust in the insurance industry and I believe we now need to work together to restore trust in insurance.

Despite all the challenges of the pandemic, I am pleased to report that 98% of surveyed customers were satisfied with how we handled their claim last year, with 92% being very and extremely satisfied, which is consistent with previous years.

In last year's report, I talked about the importance of managing claims for physical and sexual abuse and we remain committed to improving the claims experience in these sensitive cases. To this end, we welcomed the publication of the Independent Inquiry into Child Sexual Abuse (IICSA) report on the Anglican Church investigation and the insights it gives into the best possible ways to better safeguard children and how to improve the treatment of victims and survivors when disclosing abuse.

The experience of bringing an insurance claim can be traumatic for victims and survivors within the adversarial civil justice system in which we operate. We always aim to handle claims with empathy and sensitivity, as embodied in our Guiding Principles. We thank the Inquiry for its work, and we will continue to review our processes as part of our commitment to continual improvement.

Financial performance

We entered 2020 from a position of strength, but as the global economy slowed from the impacts of the pandemic, our financial performance suffered in line with the rest of the economy. The real measure of our performance in 2020 however has been how we responded to support our customers, brokers, people and communities.

Following a strong financial performance in 2019, reported loss before tax of £17.8m (2019: profit before tax £69.9m) was principally due to investment losses experienced in the first half of the year, offset by steady gains later in the year. The Group's underwriting businesses reported profit of £12.1m (2019: £20.0m) after £18.7m for Covid-19 related claims where there is confirmed cover, demonstrating continued progress in our underlying performance. To ensure the Group delivers sustainable profitable growth, we have continued to make strategic investments in technology, property and our people and this is reflected both in our capital expenditure and other costs.

We continue to be a trusted partner to our customers and brokers, and this is reflected in our strong retention and satisfaction levels, which have supported our growth in gross written premiums (GWP) of more than 10%. Despite the unprecedented challenges of 2020, we have continued to invest in the future of our business, including development of our new insurance underwriting platform and our new head office.

Our business is managed with a long-term view of risk and as a result, we have a strong capital position that can withstand short-term volatility and our strong credit ratings with S&P and AM Best were both reaffirmed during the second quarter of 2020. Our Solvency II regulatory capital position remains above regulatory requirements and risk appetite and was further supported with the issuance of €30m subordinated debt in February 2021, as the Group seeks to take advantage of profitable growth opportunities.

General insurance

The Group's underwriting businesses have proven resilient in 2020, reporting a Combined Operating Ratio[1] (COR) of 95.1% (2019: 91.1%). Underlying underwriting performance has been resilient, despite the impact of adverse weather events in Australia and Canada and the impacts of anticipated lower prior year releases and reserves strengthening. Our strategy has continued to deliver moderate GWP growth by maintaining our strong underwriting discipline and focussing on profit over growth. GWP grew 11% to £437m (2019: £394m), supported by retention and rate increases as well as new business towards the later part of the year.

United Kingdom and Ireland

In the UK and Ireland, financial year underwriting profits decreased to £12.3m (2019: £20.4m) giving a COR of 92.5% (2019: 86.8%) and GWP grew by 7.6% to £276.6m (2019: £257.1m). This represents another strong performance with positive results on both the property and liability accounts. As expected, the level of prior year releases during 2020 was significantly lower than in 2019. The run-off of unprofitable business exited in 2012 and 2013, combined with our prudent approach to reserving have positively impacted the overall result over the last four years. We would expect to continue to see a modest level of prior year releases, but with a greater contribution coming from our current year underwriting performance.

Both property and casualty accounts generated net underwriting profits on a current year basis, despite the impacts of Covid-19 and a significant church fire. Current year loss ratios are in line with expectations, reflecting favourable underlying claims performance and fewer weather events. We have also seen the benefit of rate increases in a number of portfolios.

[1] Alternative performance measure, refer to note 38 to the financial statements.

Trading conditions remained competitive and we expect this to continue in a number of areas. The education sector was particularly competitive, although we observed some market hardening in property, specifically for larger property exposures. We have continued to achieve high levels of retention and carried positive rate change where needed, whilst continuing to have very strong customer satisfaction and Net Promotor Scores across the UK and Ireland. Market hardening in some property lines and a strong operational response to keep trading through Covid-19 has also enabled us to bring on good levels of new business at the required rate, and our Real Estate, Heritage and Art & Private Client business delivered particularly strong growth during 2020. GWP in respect of our Faith business remained in line with prior year reflecting a good result in challenging market conditions.

We expect the market to continue to harden in some parts of the property portfolio as competitors correct portfolios, and also in some parts of the casualty sector. Education is likely to remain a key competitive area as the UK Government's risk protection arrangement (RPA) attracts local authority maintained schools in addition to academies. This has left the independent schools sector at increased competition from all education insurers.

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

Ansvar Australia

Our Australian business reported an underwriting loss of AUD$1.2m resulting in a COR of 102.2% (2019: AUD$6.0m loss, COR of 114.1%). GWP grew by 18.5% in local currency to AUD$149.9m (2019: AUD$126.5m) with strong new business growth, retention and rate increases. Action has been taken to exit from unprofitable business and the current year performance of the ongoing business has shown improvement over 2019. The property account was adversely impacted by early 2020 weather events and Covid-19 related claims and the liability account was strengthened for physical and sexual abuse (PSA) reserves to reflect higher claims reported in 2020.

Canada

Our Canadian business continued its track record of delivering premium growth, reporting a 20.2% increase at CAD$131.5m (2019: CAD$109.5m) supported by strong retention, growth in new business and rate increases.

Canada reported an underwriting profit of CAD$7.4m resulting in a COR of 91.2% (2019: CAD$3.4m profit, COR of 95.1%). Despite the impact from Covid-19 and two weather events, the property book performed well, driven by fewer large losses and a favourable development on prior year claims. The liability account also performed well delivering an underwriting profit despite some adverse development on prior year claims.

Investments

With the conclusion of a Brexit deal and the US election, the year ended with far less uncertainty and volatility compared to that experienced from March 2020 as markets reacted to the measures taken by Governments to tackle Covid-19. The Group's net investment loss of £4.8m as compared to the 2019 net investment profit of £75.7m can be largely attributed to performance of UK equities. The Group's fund nevertheless produced a total return ahead of its asset benchmark over the year.

The lower than expected return on investments of £20.5m reflects market conditions and reactions to the pandemic during 2020 (2019: £26.2m). The impact from Covid-19 was also reflected in fair value losses on financial instruments of £14.8m which contrasted with gains of £57.2m in 2019. Whilst 2020 ended with less uncertainty, as for all businesses, there remains economic uncertainty which could impact the performance of our investments. However we remain confident in our long-term value investment philosophy, and are relatively defensively positioned.

Within our UK equity portfolio, small and mid-cap bias proved beneficial as the FTSE Small-Cap and FTSE 250 indices outperformed the FTSE All-Share. Our directly-held sterling bond portfolio underperformed the FTSE Gilts benchmark by 5.4%, as the longer dated index outperformed on falling yields and our portfolio has a higher proportion of short dated bonds. The downward movement in bond yields led to a decrease in the discount rate applied to long-tail general insurance liabilities.

Investment management

The Group's investment management business, EdenTree, incurred a loss before tax for the year of £1.1m (2019: loss before tax £0.4m) as it continued to invest in infrastructure. The Covid-19 pandemic resulted in a challenging year, limiting the assets clients had available to invest, in particular charities. Against this backdrop, EdenTree were pleased to report £58m of net new money for the year having reached a historic high of £204m in 2019.

Global equity markets dipped significantly in March and April due to the pandemic, the recovery accelerating towards the back end of the year with some markets approaching opening levels. Assets under management were £3.1bn (2019: £3.1bn) and £2.3bn (2019: £2.3bn) excluding assets managed for the Group. Net income at £12.4m was slightly down (2019: £12.6m). This is due to the combination of lower fees earned on assets, a trend which has been seen across the industry in recent years, and market turbulence over the course of the year.

Long-term insurance
Our life insurance business, which is currently closed to new business, reported a profit before tax of £0.5m for the year (2019: £0.3m). Assets and liabilities are well matched, and the small profit is in line with our expectations for this business.

Broking and advisory
The broking and advisory business reported an overall pre tax profit of £1.0m (2019: loss of £2.2m). This comprises our insurance broker businesses SEIB Insurance Brokers Limited (SEIB), Lycetts Holdings Limited (Lycetts) and an interest in the Lloyd & Whyte Group Limited along with our small financial advisory business Ecclesiastical Financial Advisory Services Limited (EFAS) and our prepaid funeral plan distribution and administration business Ecclesiastical Planning Services Limited (EPSL).

SEIB reported an increase in profit before tax to £2.8m (2019: £2.6m). EFAS reported a loss of £0.3m in the year (2019: £0.4m loss). Lycetts' result was a profit before tax of £0.1m (2019: loss of £1.9m) and EPSL's result was a loss of £2.0m (2019: £2.4m loss).

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 (EIO). The core business of the Group is general insurance, thus insurance risks, including underwriting, pricing, reserving and reinsurance risk, are all principal risks.

Our strategy for the future
As we move into 2021, we are entering an exciting phase in our history. After making significant progress in recent years to become the most trusted and ethical specialist financial services group, we are now investing in the next stage of our journey. While many businesses retreat in the face of the coronavirus pandemic, we see the opportunity to refocus and re- energise our business based on our core strengths – our charitable purpose, our outstanding people and our passion to do the right thing.

I'm excited to be able to showcase the new Ecclesiastical Insurance brand in the EIO Annual Report & Accounts. The new visual identity represents the organisation that we are today shaped by tradition, while looking to the future. The star carries many meanings but for me it represents our pursuit of excellence, the ethics and standards that we strive for and the guiding light we aspire to be.

Through the launch of our new visual identity, we will be reinforcing everything that our audiences know and love about our organisation - our expertise, our ethics, and our unique purpose - but articulated with greater energy than before. It reflects an Ecclesiastical that not only does good, but is unified, dynamic and innovative. It's a new era for our business and, to support us, we adapted the strategy in 2020 that will take us through this challenging period and enable us to take advantage of the hardening market conditions.

Alongside the investment in our new visual identity, I'm delighted that our new head office in Gloucestershire is now fully operational and ready to welcome employees with new flexible ways of working once lockdown restrictions are lifted. The premises are truly impressive and provide a modern and spacious working environment for our employees.

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. We have recently implemented new systems for our broking, investment management and overseas insurance businesses. This year, we'll start to deliver a new strategic General Insurance system for the UK and Ireland which, once live, will help us to provide our customers and brokers with an enhanced experience and more efficient processes and capacity.

This investment in our business, together with our great people and financial strength, provides us with the foundation for a bright future.

With our £100m charitable target within our near term grasp, our adapted strategy, new brand, new systems, new head office and the new ways of working developed this year, we enter 2021 energised and inspired to work together for our customers and society.

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. There is no doubt 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.

Together, by understanding what matters, we are better able to help our customers. Together, we are better able to increase giving to our beneficiaries. And together, in the words of Captain Sir Tom Moore, we will ensure that for more people “Tomorrow will be a good day”.

Climate change and environment

The Group reports on all emission sources required under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. The reporting year runs from January to December. The emissions reporting boundary is defined as all entities and facilities either owned or under operational control of the Group and associated travel by staff. The Group continues to improve the coverage and quality of data which informs the reporting.

Scope 1 Emissions from fluorinated gas losses and fuel combustion in premises/ vehicles, Scope 2 Emissions from electricity and cooling in premises, and Scope 3 Emissions associated with business travel, waste and water use have been calculated using UK Government Greenhouse Gas reporting conversion factors 2020 (Department for Business, Energy & Industrial Strategy), and independently verified according to ISO – 14064-3:2019 Specifications with Guidance for the Validation and Verification of Greenhouse Gas Statements.

Our 2020 carbon footprint has been significantly influenced by the Covid-19 pandemic. Business travel makes the largest contribution to our footprint and it was greatly reduced due to Government restrictions. We expect business travel to increase in the future, however 2020 also inspired us to adopt new technologies and think differently about future working so we expect our impact to reduce overall. We are particularly pleased to achieve sourcing more than 92% of our energy from renewables.

In line with the Streamlined Energy and Carbon Reporting requirements the Group's carbon footprint is detailed here including our first report on carbon intensity:

	UK tCO2e		Non-UK tCO2e		Total tCO2e	
	2020	2019	2020	2019	2020	2019
Scope 1	378	530	-	-	378	530
Scope 2	17	63	6	7	23	70
Scope 3	125	826	-	-	125	826
Total	520	1,419	6	7	526	1,426

Total energy use 2,682,606 kWh, of which 2,655,294 is UK and 27,312 non-UK. Carbon intensity: 0.54 tonnes/employee (2019: 1.45). tCO2e refers to tonnes (t) of carbon dioxide (CO2) equivalent (e).

We continue to focus on the influence we can exert through the carbon intensity of our investments. All five of our EdenTree investment funds are below their sector benchmark for 2020 and four out of five have a lower carbon intensity than five years ago.

In 2021 we will also move into our new head office which has been designed to a 'very good' BREEAM sustainability standard. The building features heat recycling, solar panels and electric charging points. We have been planting trees in the local area to improve green spaces.
Improving working environments across our Group will boost wellbeing, reduce our impact and support a more flexible working future.

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, bondholders, 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.

Key performance indicators

The Group considers its key performance indicators to be profit and loss before tax, regulatory capital, combined operating ratio and net expenses ratio. In addition to information included within this Strategic report, details about Group's regulatory capital and combined operating ratio and net expenses ratio can be found in notes 4 and 38 to the financial statements.

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, bondholders, external auditors, regulators, credit rating agencies, banks and other creditors, trade unions and community groups have been identified as current stakeholders.

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) are in place and cover performance, operations and financial position. There is at least one "Common Director" (i.e. a Director who is a member of the Boards of Allchurches Trust Limited, Ecclesiastical Insurance Group plc and Ecclesiastical Insurance Office plc) who is expected to attend every Board Meeting. Sir Stephen Lamport and Chris Moulder were appointed as "Common Directors". The Common Directors present a summary of highlights from Allchurches Trust Limited Board meetings to the Directors. There is also engagement between respective Board and Committee Chairmen and the Group Chief Executive Officer. 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 expectations to the Board. In turn, the Common Directors are able to support the directors of Allchurches Trust Limited to understand the performance and strategic issues faced by the Company. A conflict of interest policy which sets out how actual and perceived conflicts of interest between the two companies are managed is in place.

When determining if it is appropriate to make a distribution in the form of a grant to the company's ultimate parent undertaking, Allchurches Trust Limited, the Board considers advice from the Group Chief Financial Officer. A key area for the Board's deliberation is the company's capital position and the affordability of the grant based on a range of stressed circumstances as well as the views of the Chairman of Allchurches Trust Limited. No grant was paid to Allchuches Trust Limited during the calendar year 2020.

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 2020 Annual Report and Accounts of Ecclesiastical Insurance Office plc.

By order of the Board

Mark Hews
Group Chief Executive, Ecclesiastical Insurance Group plc
27 April 2021

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 the date of this report 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. The Very Reverend Christine Wilson retired as a director on 18 June 2020. Neil Maidment was appointed as a non-executive director on 6 January 2020 and Sir Stephen Lamport was appointed as a non-executive director on 23 March 2020.

All directors who have served since the last AGM will be proposed for re-election at the forthcoming AGM.

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

Neither the directors nor their connected persons held any beneficial interest in any Ordinary shares of group companies during the year ended 31 December 2020. 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 at 31 December 2020:

Director	Nature of Interest	Number of EIO Non-Cumulative Irredeemable Preference Shares held	
		31.12.2020	**31.12.2019**
Mark Hews	Connected person	75,342	75,342
Denise Cockrem	Connected person	16,000	-

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.

Dividends
The directors do not recommend the payment of a dividend for the year ended 31 December 2020 (2019: £nil).

Charitable and political donations
Charitable donations made by the Group in the year amounted to £2.7m (2019: £32.5m).

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

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

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. The designated non-executive director is briefed on employee survey results and feedback and reports relevant findings to the Board;

- a variety of communication channels including intranet, all staff emails (including weekly news, results, achievements and changes), briefings 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);

- In 2020 the Group focused on regular targeted and tailored check-in surveys which were focussed on gathering real time feedback as the pandemic situation evolved during 2020. Adopting a targeted approach and consulting on matters directly affecting employees, enabled us to respond quickly to any concerns as they emerged. Results were monitored and reviewed by the Group's Crisis Management Team and were also disseminated throughout the Group for local action planning;

- 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 virtually 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.

The Group is committed to nurturing a culture and work environment in which all employees can fulfil their potential. Our Equality and Diversity Standard and Guidance sets our expectations for an open and inclusive workplace and we place the care and wellbeing of our employees at the heart of our employment policies. Throughout the employee lifecycle from recruitment onwards, we carefully consider adjustments to our processes and practices and look for solutions to remove barriers for those employees with disabilities. When needed, we engage with third-party and Occupational Health specialists who provide us with expert advice and ensure we are offering the best support we can. Through our adjusted work approach, we provide an environment in which disabled employees can fully participate in all opportunities provided by the Group from continued employment to training, job moves and promotions.

Climate change and environment
Information about the Group's approach to climate change and the environment is provided in the Strategic Report.

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 an annual bonus opportunity. However, remuneration for executive directors is more heavily weighted towards variable rewards, through a higher annual bonus opportunity and participation in the Group LTIP alongside other senior employees. Such variable remuneration is conditional on the achievement of performance targets that are linked to the successful delivery of the Group strategy. The greater weighting towards variable remuneration thereby aligns the interests of executive directors with those of the shareholder.

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

The Group embeds risk management into its strategic and business planning activities whereby major risks that could affect the business in the short and long term are identified by the relevant management together with an assessment of the effectiveness of the processes and controls in place to manage and mitigate these risks. The Group's internal control framework is vital in setting the tone for the Group and in creating a high degree of control consciousness in all employees.

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

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

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

Internal control over financial reporting

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

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

The Group has considerable financial resources: financial investments of £845.8m, 90% of which are liquid (2019: financial investments of £872.8m, 91% liquid) and cash and cash equivalents of £129.6m (2019: £98.4m). Liquid financial investments consist of listed equities and open-ended investment companies, government bonds and listed debt. In February 2021, the Group raised Euro 30 million of Tier 2 capital with the issue of 20-year subordinated bonds, callable after year 10.

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.

Due to the level of uncertainty created by the global Covid-19 pandemic, 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 expect to continue to meet regulatory requirements. Covid-19 has impacted how the businesses operate, with a significant proportion of employees working effectively in a remote environment. They have continued to support our customers, work with our key suppliers and perform other functions of the Group. Whilst making some of these changes to the way the Group and its businesses operate caused some level of disruption, the businesses are equipped to deliver services in this way and can continue to do so over a prolonged period. Given the Group's operations, robust capital strength, liquidity and in conjunction with forecast projections and stress testing, 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. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

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 reappointed as auditor of the Group will be put to the forthcoming AGM.

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

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 regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law, directors must not approve the financial statements 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors 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 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.

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.

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware;
- they have 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 company's auditors are aware of that information; and
- 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
27 April 2021

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

Report on the audit of the financial statements

Opinion

In our opinion, Ecclesiastical Insurance Group plc's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2020 and of the group's loss and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements 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, included within the Annual Report, which comprise: the Consolidated and Parent Statement of Financial Position; as at 31 December 2020; the Consolidated Statement of Profit or Loss, the Consolidated and Parent Statement of Comprehensive Income, the Consolidated and Parent Statement of Changes in Equity and the Consolidated and Parent Statement of Cash Flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 1 to the financial statements, the group and company, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the group and company financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 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 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 auditors' 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to journal entries to revenue or expenditure and management bias in accounting estimates specifically investments with a judgemental valuation being investment property and unlisted equity investments, and the valuation of specific general insurance reserves such as UK loss of profits, asbestos and Physical and Sexual Abuse ("PSA") reserves. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed included:

- Enquiries of compliance, risk, internal audit, and the Group's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Group Board, Group Audit Committee and Group Risk Committee
- Procedures relating to the valuation of investment property and unlisted equity investments, and the valuation of specific general insurance reserves such as UK loss of profits, asbestos and PSA reserves
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations in revenue or expenditure; and.
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

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

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Sue Morling
(Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
27 April 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2020

	Notes	2020 £000	2019 £000
Revenue			
Gross written premiums	5, 6	466,899	425,854
Outward reinsurance premiums	6	(202,674)	(184,788)
Net change in provision for unearned premiums	6	(16,562)	(15,080)
Net earned premiums		247,663	225,986
Fee and commission income	7	95,020	97,142
Other operating income		2,126	544
Net investment return	8	(4,834)	75,704
Total revenue		339,975	399,376
Expenses			
Claims and change in insurance liabilities	9	(258,281)	(194,627)
Reinsurance recoveries	9	130,068	89,619
Fees, commissions and other acquisition costs	10	(86,245)	(73,788)
Other operating and administrative expenses		(142,968)	(150,056)
Total operating expenses		(357,426)	(328,852)
Operating (loss)/profit		(17,451)	70,524
Finance costs		(926)	(707)
Share of profit after tax of associate		601	59
(Loss)/profit before tax	5	(17,776)	69,876
Tax credit/(expense)	14	432	(11,858)
(Loss)/profit for the year	11	(17,344)	58,018
Attributable to:			
Equity holders of the Parent		(26,126)	49,127
Non-controlling interests		8,782	8,891
		(17,344)	58,018

CONSOLIDATED AND PARENT STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2020

	Notes	2020 Group £000	2020 Parent £000	2019 Group £000	2019 Parent £000
(Loss)/profit for the year		(17,344)	(3,778)	58,018	(928)
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Fair value gains on property		(66)	-	-	-
Losses on retirement benefit plans	20	(19,036)	-	(7,916)	-
Attributable tax		3,923	-	1,349	-
		(15,179)	-	(6,567)	-
Items that may be reclassified subsequently to profit or loss:					
Gains/(losses) on currency translation differences	28	1,980	-	(1,368)	-
(Losses)/gains on net investment hedges	28	(2,339)	-	640	-
Attributable tax		265	-	(19)	-
		(94)	-	(747)	-
Net other comprehensive expense		(15,273)	-	(7,314)	-
Total comprehensive (expense)/income		(32,617)	(3,778)	50,704	(928)
Attributable to:					
Equity holders of the Parent		(41,399)	(3,778)	41,813	(928)
Non-controlling interests		8,782	-	8,891	-
		(32,617)	(3,778)	50,704	(928)

CONSOLIDATED AND PARENT STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2020

		Attributable to equity holders of the Parent						
Group	Notes	Share capital £000	Revaluation reserve £000	Translation and hedging reserve £000	Retained earnings £000	Total £000	Non-controlling interests £000	Total equity £000
At 1 January 2020		**20,000**	**640**	**18,324**	**480,312**	**519,276**	**103,090**	**622,366**
(Loss)/profit for the year		-	-	-	*(26,126)*	*(26,126)*	*8,782*	*(17,344)*
Other net expense		-	*(16)*	*(94)*	*(15,163)*	*(15,273)*	-	*(15,273)*
Total comprehensive expense		-	(16)	(94)	(41,289)	(41,399)	8,782	(32,617)
Acquisition of non-controlling interest		-	-	-	(244)	(244)	(1,275)	(1,519)
Dividends	15	-	-	-	-	-	(8,782)	(8,782)
At 31 December 2020		**20,000**	**624**	**18,230**	**438,779**	**477,633**	**101,815**	**579,448**
At 1 January 2019		20,000	640	19,071	462,255	501,966	103,090	605,056
Profit for the year		-	-	-	*49,127*	*49,127*	*8,891*	*58,018*
Other net expense		-	-	*(747)*	*(6,567)*	*(7,314)*	-	*(7,314)*
Total comprehensive (expense)/income		-	-	(747)	42,560	41,813	8,891	50,704
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
At 31 December 2019		20,000	640	18,324	480,312	519,276	103,090	622,366
Parent								
At 1 January 2020		**20,000**	-	-	**9,517**	**29,517**		
Total comprehensive expense attributable to equity holders		-	-	-	(3,778)	(3,778)		
At 31 December 2020		**20,000**	-	-	**5,739**	**25,739**		
At 1 January 2019		20,000	-	-	10,445	30,445		
Total comprehensive expense attributable to equity holders		-	-	-	(928)	(928)		
At 31 December 2019		20,000	-	-	9,517	29,517		

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 (2019: £4,200,000).

CONSOLIDATED AND PARENT STATEMENT OF FINANCIAL POSITION

at 31 December 2020

	Notes	31 December 2020 Group £000	31 December 2020 Parent £000	31 December 2019 Group £000	31 December 2019 Parent £000
Assets					
Goodwill and other intangible assets	18	77,352	-	64,411	-
Deferred acquisition costs	19	41,989	-	38,199	-
Deferred tax assets	32	2,502	-	3,184	-
Pension assets	20	1,053	-	8,505	-
Investment in associate	17	5,696	5,112	5,171	5,112
Property, plant and equipment	21	42,431	-	22,808	-
Investment property	22	142,142	-	148,146	-
Financial investments	23	845,755	68,939	872,759	56,496
Reinsurers' share of insurance contract liabilities	30	415,247	-	342,844	-
Current tax recoverable		8,843	-	4,218	-
Other assets	25	167,709	1,893	150,254	6,050
Cash and cash equivalents	26	129,596	1,568	98,369	1,005
Total assets		1,880,315	77,512	1,758,868	68,663
Equity					
Share capital	27	20,000	20,000	20,000	20,000
Retained earnings and other reserves		457,633	5,739	499,276	9,517
Equity attributable to equity holders of the Parent		477,633	25,739	519,276	29,517
Non-controlling interests	29	101,815	-	103,090	-
Total equity		579,448	25,739	622,366	29,517
Liabilities					
Insurance contract liabilities	30	1,075,219	-	947,265	-
Borrowings		28,151	50,883	14,510	37,758
Provisions for other liabilities	31	7,013	-	5,435	-
Pension liabilities	20	17,226	-	4,978	-
Retirement benefit obligations	20	6,530	-	5,998	-
Deferred tax liabilities	32	30,615	769	36,532	883
Current tax liabilities		1,329	37	123	-
Deferred income	33	26,404	-	22,991	-
Other liabilities	33	108,380	84	98,670	505
Total liabilities		1,300,867	51,773	1,136,502	39,146
Total equity and liabilities		1,880,315	77,512	1,758,868	68,663

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 £3,778,000 (2019: loss of £928,000).

The financial statements of Ecclesiastical Insurance Group plc, registered number 1718196, on pages 16 to 82 were approved and authorised for issue by the Board of Directors on 27 April 2021 and signed on its behalf by:

Mark Hews
Group Chief Executive

CONSOLIDATED AND PARENT STATEMENT OF CASH FLOWS

for the year ended 31 December 2020

	Notes	2020 Group £000	2020 Parent £000	2019 Group £000	2019 Parent £000
(Loss)/profit before tax		(17,776)	(3,861)	69,876	(837)
Adjustments for:					
Depreciation of property, plant and equipment		6,120	-	5,602	-
Revaluation of property, plant and equipment		(10)	-	-	-
Loss on disposal of property, plant and equipment		3	-	171	-
Amortisation and impairment of intangible assets		4,273	-	6,574	-
Impairment/(reversal of impairment) of shares in subsidiary undertakings		-	3,707	-	2,027
Loss on disposal of intangible assets		-	-	-	-
Share of profit of associate		(601)	-	(59)	-
Net fair value losses/(gains) on financial instruments and investment property		19,751	1,148	(53,324)	(1,234)
Dividend and interest income		(22,364)	(1,560)	(26,206)	(799)
Finance costs		926	480	707	461
Adjustment for pension funding		1,127	-	929	-
Changes in operating assets and liabilities:					
Net increase in insurance contract liabilities		117,462	-	75,349	-
Net increase in reinsurers' share of contract liabilities		(68,382)	-	(47,078)	-
Net increase in deferred acquisition costs		(3,352)	-	(4,553)	-
Net increase in other assets		(14,587)	(1,097)	(18,262)	(1,755)
Net increase in operating liabilities		10,064	(139)	15,078	118
Net increase in other liabilities		1,244	-	536	-
Cash generated/(used) by operations		33,898	(1,322)	25,340	(2,019)
Purchases of financial instruments and investment property		(133,678)	(11,924)	(163,192)	(6,432)
Sale of financial instruments and investment property		152,174	643	148,454	145
Dividends received		6,305	450	9,972	657
Interest received		15,068	1,085	15,917	145
Tax (paid)/recovered		(3,819)	5	(8,497)	133
Net cash from/(used by) operating activities		69,948	(11,063)	27,994	(7,371)
Cash flows from investing activities					
Purchases of property, plant and equipment		(6,891)	-	(4,677)	-
Proceeds from the sale of property, plant and equipment		1	-	-	-
Purchases of intangible assets		(15,646)	-	(9,619)	-
Acquisition of business, net of cash acquired	16, 17	(822)	-	(5,252)	(5,112)
Acquisition of interest in subsidiary	16, 29	(1,519)	(1,519)	(1,360)	(300)
Net cash used by investing activities		(24,877)	(1,519)	(20,908)	(5,412)
Cash flows from financing activities					
Interest paid		(926)	(480)	(707)	(461)
Payment of lease liabilities		(5,258)	-	(3,035)	-
Proceeds from other borrowings		-	13,625	-	8,300
Dividends paid to non-controlling interests of subsidiaries		(8,782)	-	(8,891)	-
Donations paid to ultimate parent undertaking	15	-	-	(30,000)	-
Net cash used by financing activities		(14,966)	13,145	(42,633)	7,839
Net increase/(decrease) in cash and cash equivalents		30,105	563	(35,547)	(4,944)
Cash and cash equivalents at beginning of year		98,369	1,005	134,117	5,952
Exchange gains/(losses) on cash and cash equivalents		1,122	-	(201)	(3)
Cash and cash equivalents at end of year	26	129,596	1,568	98,369	1,005

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 2020 issued by the International Accounting Standards Board (IASB) in conformity with the requirements of the Companies Act 2006 and pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (EU). The financial statements have been prepared on the historical cost basis, except for the revaluation of properties measured at fair value through other comprehensive income (FVTOCI) and certain other financial assets and derivatives measured at fair value through profit and loss (FVTPL).

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

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

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

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

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

New and revised standards

A number of amendments and improvements to accounting standards have been issued by the International Accounting Standards Board (IASB) with an effective date of on or after 1 January 2020, and are therefore applicable for the 31 December 2020 financial statements. None had a significant impact on 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 acctivities 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.

Within the Group, Ecclesiastical Insurance Office plc, Ecclesiastical Life Limited and Ansvar Insurance Limited qualify for the temporary exemption from the requirements of IFRS 9.

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

Standard	Key requirements	Expected impact on financial statements	Effective date
IFRS 9, *Financial Instruments**	Provides a new model for the classification and measurement of financial instruments, a single, forward-looking 'expected loss' impairment model and a reformed approach to hedge accounting.	It is expected that equity instruments will continue to be measured at fair value through profit or loss. There is a possibility that the measurement of certain debt instruments will change to amortised cost or fair value through other comprehensive income. No changes are expected from the more principles-based hedge accounting requirements. The Group is eligible for, and has applied, the deferral approach, which gives a temporary exemption from applying IFRS 9 until the effective date of 'IFRS 17, Insurance contracts'.	Annual periods beginning on or after 1 January 2018. Although can be deferred until 2023 for insurers inline with the effective date of IFRS 17.
IFRS 17, Insurance Contracts	Requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts.	IFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. The standard was issued in May 2017 as replacement for IFRS 4, Insurance Contracts and the impact of the standard on the financial statements is 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 to contracts with a coverage period of one year or less. Amendments to IFRS 17 that had been proposed by the IASB in January 2019, were been issued in June 2020. It is not currently practical to quantify the potential impact on the Group's financial position or performance. The Group expects to quantify the potential impact closer to transition.	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. This includes estimates and assumptions related to insurance contract liabilities as a result of Covid-19. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. Those estimates which have the most material impact on the financial statements are disclosed in note 2.

Basis of consolidation

Subsidiaries

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

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

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

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

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 life business contracts are classified as insurance contracts.

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

Premium income

General insurance business

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

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

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.

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

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

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

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

Fee and commission income

Fee and commission income consists primarily of reinsurance commissions and reinsurance profit commissions 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, unrealised gains and losses on financial investments and investment properties. Dividends on equity securities are recorded as revenue on the ex-dividend date. Interest and rental income is recognised as it accrues.

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

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

Claims

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

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

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

Insurance contract liabilities

General insurance provisions

(i) Outstanding claims provisions

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

(ii) Provision for unearned premiums

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

(iii) Liability adequacy

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

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

Long-term business provisions

Under current IFRS requirements, long-term insurance contract liabilities arising from funeral plans, where the Group's liability under the funeral plan is linked to inflation, are measured using accounting policies consistent with those adopted previously prior to the adoption of IFRS 4. The long-term business provision is held in respect of funeral plans and determined using methods and assumptions approved by the directors based on advice from the Chief Actuary.

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

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. The Group does not reinsure its life business.

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

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

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

Computer software

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

Other intangible assets

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

Property, plant and equipment

Owner-occupied properties are stated at fair 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 fair 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

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

The classification depends on the nature and purpose of the financial assets and liabilities, and is determined at the time of initial recognition. Assets and liabilities held at fair value are disclosed according to a hierarchy that reflects the significance of observable market inputs in calculating those fair values. The three levels of the fair value hierarchy are included within note 4. Financial instruments are initially measured at fair value. Their subsequent measurement depends on their classification:

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

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

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).

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

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

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

(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

Leases are recognised as a right-of-use asset and a corresponding lease 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 are determined using the net present value of the payments over the lease term with the rate used to discount payments reflecting the rate implicit in the lease or, if it not readily determinable, the Group's incremental borrowing rate, and include:

- 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.

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. The Group's lease liabilities are included within borrowings. 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.

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 these distributions 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.

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. During 2020, the Covid-19 pandemic developed rapidly with far-reaching impacts across the global economy and the insurance industry. Management has considered the effects of Covid-19 and actions taken by Government's in its estimates and judgements. Specifically, insurance liabilities reflect management's best estimate of claims directly related to Covid-19. Valuations incorporate market conditions as at 31 December 2020 and recoverability of intangible assets has been tested where the value of these intangible assets is sensitive to prevailing economic conditions.

(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 price, are classified as level 3 financial assets. This requires the Group to make judgements in respect of the most appropriate valuation technique to apply. Further details, including the amounts recognised within the financial statements which are impacted by these judgements are shown in note 4(b).

Goodwill impairment

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

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 polices 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.

There is uncertainty as to the economic effect that Brexit and Covid-19 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 these. These include but are not limited to discount rate, inflation, long-term economic growth rate and investment market returns. The following items are considered key estimates and assumptions which, if actual results differ from those predicted, may have significant impact on the following year's financial statements:

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

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

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

The uncertainties surrounding the estimates of claims payments for the various classes of business are discussed further in note 3, and where discount rates have been applied these are disclosed in note 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 illiquidity discount and credit rating discount. Further details, including the sensitivity of the valuation to these inputs, are shown in note 4(b).

Carrying value of goodwill

Goodwill is tested annually for impairment as detailed in the Group's accounting policies. In order to calculate the value in use under this policy, the Group is required to make an estimation of the future cash flows expected to arise from the business unit, an appropriate long-term growth rate to apply to the cash flows and a suitable discount rate to calculate the present value. Further details on these estimates and sensitivities of the carrying value of goodwill to these estimates are provided in note 18.

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	
Territory		Property £000	Liability £000	Miscellaneous financial loss £000	Other £000	Funeral plans £000	Total £000
2020							
United Kingdom and Ireland	Gross	203,921	57,634	16,273	3,328	29,612	310,768
	Net	107,458	55,095	9,080	716	12	172,361
Australia	Gross	48,665	29,279	1,332	902	-	80,178
	Net	7,299	24,840	1,283	171	-	33,593
Canada	Gross	51,920	24,033	-	-	-	75,953
	Net	35,846	22,425	-	-	-	58,271
Total	Gross	304,506	110,946	17,605	4,230	29,612	466,899
	Net	150,603	102,360	10,363	887	12	264,225
2019							
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

(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, theft and earthquake. 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.

(d) Long-term insurance risks

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

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

In such cases, the Group's liability under the funeral plan are linked to inflation and backed by index-linked assets. Although assets held by the group are well matched to liabilities, the risk that returns on assets held to back liabilities are insufficient to meet future claims payments may occur, particularly if the timing of claims is different from that assumed. This is not one of the Group's principal risks and new policies are no longer being written in the life fund, with only minimal premiums now being received each year.

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

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

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

4 Financial risk and capital management

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

There has been no change from the prior period in the nature of the financial risks to which the Group is exposed. Despite the conclusion of Brexit and the US election at the end of 2020 and Covid-19 vaccine programmes, uncertainty remains in relation to the economic risks to which the Group is exposed, including equity price volatility, movements in exchange rates and long-term UK growth prospects. The Group's management and measurement of financial risks is informed by either stochastic modelling or stress testing techniques.

(a) Categories of financial instruments
(i) Categories applying IAS 39

	Financial assets				Financial liabilities				
Group	Designated at fair value £000	Held for trading £000	Loans and receivables £000	Hedge accounted derivatives £000	Held for trading £000	Financial liabilities* £000	Hedge accounted derivatives £000	Other assets and liabilities £000	Total £000
At 31 December 2020									
Financial investments	827,547	2,079	15,728	401	-	-	-	-	845,755
Other assets	-	-	162,102	-	-	-	-	5,607	167,709
Cash and cash equivalents	-	-	129,596	-	-	-	-	-	129,596
Borrowings	-	-	-	-	-	(28,151)	-	-	(28,151)
Other liabilities	-	-	-	-	-	(95,043)	(1,244)	(12,093)	(108,380)
Net other	-	-	-	-	-	-	-	(427,081)	(427,081)
Total	827,547	2,079	307,426	401	-	(123,194)	(1,244)	(433,567)	579,448
At 31 December 2019									
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)
Total	859,673	3,061	253,431	509	-	(101,591)	-	(392,717)	622,366

* 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 is considered to approximate to their fair value.

(ii) Categories applying IFRS 9

Parent	Financial assets FVTPL £000	Financial assets FVOCI £000	Financial assets Amortised cost £000	Financial liabilities FVTPL £000	Financial liabilities Amortised cost £000	Other assets and liabilities £000	Total £000
At 31 December 2020							
Financial investments	9,997	-	14,982	-	-	43,960	68,939
Other assets	-	-	1,893	-	-	-	1,893
Cash and cash equivalents	-	-	1,568	-	-	-	1,568
Borrowings	-	-	-	-	(50,883)	-	(50,883)
Other liabilities	-	-	-	-	(84)	-	(84)
Net other	-	-	-	-	-	4,306	4,306
Total	9,997	-	18,443	-	(50,967)	48,266	25,739
At 31 December 2019							
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
Total	11,100	-	10,802	-	(38,263)	45,878	29,517

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.

	2020 SPPI financial assets £000	2020 Other financial assets £000	2020 Total financial assets £000	2019 SPPI financial assets £000	2019 Other financial assets £000	2019 Total financial assets £000
Financial Investments	15,728	830,027	845,755	9,516	863,243	872,759
Cash and cash equivalents	129,596	-	129,596	98,369	-	98,369
Other financial assets	162,102	-	162,102	145,546	-	145,546
Total fair value	307,426	830,027	1,137,453	253,431	863,243	1,116,674

There has been a £53,995,000 increase (2019: £17,655,000 decrease) in the fair value of SPPI financial assets of the Group, and a £33,216,000 decrease (2019: £72,204,000 increase) in the fair value of other financial assets of the Group during the reporting period.

(b) Fair value hierarchy

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

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

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

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

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

Analysis of fair value measurement bases	Fair value measurement at the end of the reporting period based on			
Group	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
At 31 December 2020				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	262,014	185	69,684	331,883
Debt securities	493,600	1,512	552	495,664
Derivatives	-	2,079	-	2,079
Hedged accounted derivatives	-	401	-	401
Total financial assets at fair value	755,614	4,177	70,236	830,027
At 31 December 2019				
Financial assets at fair value through profit or loss				
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
Hedged accounted derivatives	-	509	-	509
Total financial assets at fair value	780,076	4,960	78,207	863,243
Parent				
At 31 December 2020				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	-	-	9,997	9,997
Total financial assets at fair value	-	-	9,997	9,997
At 31 December 2019				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	-	-	11,100	11,100
Total financial assets at fair value	-	-	11,100	11,100

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).

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:

	Financial assets at fair value through profit and loss		
Group	Equity securities £000	Debt securities £000	Total £000
At 31 December 2020			
Opening balance	77,803	404	78,207
Total (losses)/gains recognised in profit or loss	(8,163)	147	(8,016)
Purchases	45		45
Closing balance	69,685	551	70,236
Total (losses)/gains for the period included in profit or loss for assets held at the end of the reporting period	(8,163)	147	(8,016)
At 31 December 2019			
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
Parent			
At 31 December 2020			
Opening balance	11,100	-	11,100
Total losses recognised in profit or loss	(1,148)	-	(1,148)
Disposal proceeds	45	-	45
Closing balance	9,997	-	9,997
Total gains for the period included in profit or loss for assets held at the end of the reporting period	1,233	-	1,233
At 31 December 2019			
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

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

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

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

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

Non-exchange-traded derivative contracts (level 2)

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

Unlisted equity securities (level 3)

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

The valuation is sensitive to the level of underlying net assets, the Euro exchange rate, the price-to-book ratio chosen, an illiquidity discount and a credit rating discount applied to the valuation to account for the risks associated with holding the asset. If the illiquidity discount and credit rating discount applied changes by +/-10%, the value of unlisted equity securities could move by +/-£7m (2019: +/-£9m).

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 (2019: three 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.

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

Group long-term business	Maturity Within 1 year £000	Between 1 & 5 years £000	After 5 years £000	Total £000
At 31 December 2020				
Assets				
Debt securities	6,083	30,161	61,665	97,909
Cash and cash equivalents	8,264	-	-	8,264
	14,347	30,161	61,665	106,173
Liabilities (discounted)				
Gross long-term business provision	21,911	74,600	186,916	283,427
Ceded long-term business provision	(16,808)	(56,555)	(133,207)	(206,570)
Net long-term business provision	5,103	18,045	53,709	76,857
At 31 December 2019				
Assets				
Debt securities	6,066	28,732	65,093	99,891
Cash and cash equivalents	3,954	-	-	3,954
	10,020	28,732	65,093	103,845
Liabilities (discounted)				
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	5,517	19,223	54,472	79,212

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.

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).

	SPPI				Non- SPPI
Group	Cash and cash equivalents* £000	Reinsurance debtors £000	Other financial assets £000	Total SPPI £000	Debt securities £000
At 31 December 2020					
AAA	-	-	-	-	128,037
AA	36,319	1,986	-	38,305	130,285
A	18,358	8,564	-	26,922	125,745
BBB	74,844	3	-	74,847	94,100
Below BBB	-	-	-	-	8,997
Not rated	75	452	166,825	167,352	8,500
	129,596	11,005	166,825	307,426	495,664
At 31 December 2019					
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
	103,343	11,177	138,911	253,431	492,516
Parent					
At 31 December 2020					
A	962		-	962	-
BBB	606		-	606	-
Not rated	-	-	16,875	16,875	-
	1,568	-	16,875	18,443	-
At 31 December 2019					
A	581	-	-	581	-
BBB	424	-	-	424	-
Not rated	-	-	9,797	9,797	-
	1,005	-	9,797	10,802	-

*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.

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

Group	2020 £000	2019 £000
UK	276,914	301,227
Australia	108,793	84,726
Canada	89,659	86,292
Europe	20,298	20,271
Total	495,664	492,516

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:

	2020			2019	
	Group £000	Parent £000		Group £000	Parent £000
UK	262,710	295	UK	289,815	250
Europe	68,988	9,702	Europe	77,152	10,850
Hong Kong	185	-	Hong Kong	190	-
Total	331,883	9,997	Total	367,157	11,100

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

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

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

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

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

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

	2020			2019	
	Group	Parent		Group	Parent
	£000	£000		£000	£000
Aus $	57,351	-	Euro	76,391	10,854
Euro	33,873	9,706	Aus $	41,970	-
Can $	17,561	-	Can $	33,724	-
USD $	1,774	-	USD $	1,282	-
HKD $	171	-	HKD $	176	-

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.

(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	2020 £000	2019 £000	2020 £000	2019 £000
Interest rate risk	-100 basis points	(21,437)	(5,796)	(70)	(25)
	+100 basis points	18,299	3,488	44	37
Currency risk	-10%	(1,389)	7,401	9,715	7,628
	+10%	1,137	(6,055)	(7,948)	(6,241)
Equity price risk	+/-10%	26,883	29,740	-	-

Parent		Potential increase/ (decrease) in profit		Potential increase/ (decrease) in other equity reserves	
Variable	Change in variable	2020 £000	2019 £000	2020 £000	2019 £000
Currency risk	-10%	874	977	-	-
	+10%	(715)	(799)	-	-
Equity price risk	+/-10%	810	899	-	-

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

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

(i) Capital management

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

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

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

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

Capital is assessed at both individual regulated entity and group level. The PRA expects a firm, at all times, to hold Solvency II Own Funds in excess of its calculated Solvency Capital Requirement (SCR). Both quarterly and annual quantitative returns are submitted to the PRA, in addition to an annual narrative report, the Solvency and Financial Condition Report (SFCR) which is also published on the company website. A further report, the Regular Supervisory Report (RSR) is periodically submitted to the PRA.

The current year figures in the table below are unaudited and based on the latest information provided to management. 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 a partial internal model which has been approved for use by the PRA. The Group expects to meet the PRA's deadline for submission to the PRA of 20 May 2021, and its SFCR will be made available on the Group's website shortly after.

	2020 (unaudited) £000	2019 (unaudited*) £000
Solvency II Own Funds	479,474	534,651
Solvency Capital Requirement	(280,403)	(282,823)
Own Funds in excess of Solvency Capital Requirement	199,071	251,828
Solvency II Capital Cover	171%	189%

*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.

5 Segment information

(a) Operating segments

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

The activities of each operating segment are described below.

- General business

United Kingdom and Ireland

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

Australia

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

Canada

The Group operates a general insurance Ecclesiastical branch in Canada.

Other insurance operations

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

- Investment management

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

- Broking and Advisory

The Group provides insurance broking through SEIB Insurance Brokers Limited and Lycetts Holdings Limited and it's 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 Ansvar 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.

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.

	2020 Gross written premiums £000	2020 Non-insurance services £000	2020 Total £000	2019 Gross written premiums £000	2019 Non-insurance services £000	2019 Total £000
General business						
United Kingdom and Ireland	276,618	-	276,618	257,135	-	257,135
Australia	80,178	-	80,178	68,857	-	68,857
Canada	75,953	-	75,953	64,457	-	64,457
Other insurance operations	4,538	-	4,538	3,516	-	3,516
Total	437,287	-	437,287	393,965	-	393,965
Long-term business	29,612	-	29,612	31,889	-	31,889
Investment management	-	12,394	12,394	-	12,798	12,798
Broking and Advisory	-	34,884	34,884	-	34,977	34,977
Group revenue	466,899	47,278	514,177	425,854	47,775	473,629

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.

2020	*Combined operating ratio*	Insurance £000	Investments £000	Other £000	Total £000
General business					
United Kingdom and Ireland	92.5%	12,255	(12,123)	(479)	(347)
Australia	102.2%	(620)	1,678	(31)	1,027
Canada	91.2%	4,521	3,003	(176)	7,348
Other insurance operations		(4,103)	-	-	(4,103)
	95.1%	12,053	(7,442)	(686)	3,925
Long-term business		468	29	-	497
Investment management		-	-	(1,111)	(1,111)
Broking and Advisory		-	-	997	997
Corporate costs		-	-	(21,533)	(21,533)
Other activities		-	(551)	-	(551)
Profit/(loss) before tax		12,521	(7,964)	(22,333)	(17,776)

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
Profit/(loss) before tax		20,353	70,442	(20,919)	69,876

(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:

	2020		2019	
	Gross written premiums £000	Non-current assets £000	Gross written premiums £000	Non-current assets £000
United Kingdom and Ireland	310,768	252,475	292,540	226,355
Australia	80,178	6,114	68,857	4,348
Canada	75,953	6,946	64,457	8,272
	466,899	265,535	425,854	238,975

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

6 Net insurance premium revenue

	General business £000	Long-term business £000	Total £000
For the year ended 31 December 2020			
Gross written premiums	437,287	29,612	466,899
Outward reinsurance premiums	(173,074)	(29,600)	(202,674)
Net written premiums	264,213	12	264,225
Change in the gross provision for unearned premiums	(24,984)	-	(24,984)
Change in the provision for unearned premiums, reinsurers' share	8,422	-	8,422
Change in the net provision for unearned premiums	(16,562)	-	(16,562)
Earned premiums, net of reinsurance	247,651	12	247,663
For the year ended 31 December 2019			
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)
Earned premiums, net of reinsurance	225,999	(13)	225,986

7 Fee and commission income

During the year, the Group recognised £51,274,000 (2019: £52,905,000) fee and commission income in accordance with IFRS 4 Insurance Contracts and £43,846,000 (2019: £44,236,000) in accordance with IFRS 15 Revenue from contracts with customers. Fee and commission income from contracts with customers was recognised as follows:

	Recognised at a point in time £000	Recognised over time £000	Total £000
For the year ended 31 December 2020			
General business	201	-	201
Investment management	66	12,427	12,493
Broking and advisory*	29,333	1,819	31,152
	29,600	14,246	43,846
For the year ended 31 December 2019			
General business	302	-	302
Investment management	108	12,690	12,798
Broking and advisory*	29,434	1,702	31,136
	29,844	14,392	44,236

*£3,732,000 (2019: £3,841,000) of broking and advisory income is recognised in accordance with IFRS 4 therefore not included in the table above.

8 Net investment return

	2020 £000	2019 £000
Income from financial assets at fair value through profit or loss		
- equity income	6,255	9,947
- debt income	12,631	14,221
Income from financial assets calculated using the effective interest rate method		
- cash and cash equivalents income	149	662
- other income received	2,435	1,413
Other income		
- rental income	8,806	8,538
- exchange movements	530	32
Investment income	30,806	34,813
Fair value movements on financial instruments at fair value through profit or loss	(14,767)	57,224
Fair value movements on investment property	(4,984)	(3,900)
Fair value movements on property, plant and equipment	10	-
Impact of discount rate change on insurance contract liabilities	(15,899)	(12,433)
Net investment return	(4,834)	75,704

Included within fair value movements on financial instruments at fair value through profit or loss are losses of £2,396,000 (2019: £162,000.

9 Claims and change in insurance liabilities and reinsurance recoveries

	General business £000	Long-term business £000	Total £000
For the year ended 31 December 2020			
Gross claims paid	164,511	22,079	186,590
Gross change in the provision for claims	59,617	-	59,617
Gross change in long-term business provisions	-	12,074	12,074
Claims and change in insurance liabilities	224,128	34,153	258,281
Reinsurers' share of claims paid	(59,025)	(16,071)	(75,096)
Reinsurers' share of change in the provision for claims	(35,557)	-	(35,557)
Reinsurers' share of change in long-term business provisions	-	(19,415)	(19,415)
Reinsurance recoveries	(94,582)	(35,486)	(130,068)
Claims and change in insurance liabilities, net of reinsurance	129,546	(1,333)	128,213
For the year ended 31 December 2019			
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	157,481	37,146	194,627
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	(52,800)	(36,819)	(89,619)
Claims and change in insurance liabilities, net of reinsurance	104,681	327	105,008

10 Fees, commissions and other acquisition costs

	2020 £000	2019 £000
Fees paid	2,144	1,893
Commission paid	67,387	61,303
Change in deferred acquisition costs	(3,352)	(4,553)
Other acquisition costs	20,066	15,145
Fees, commissions and other acquisition costs	86,245	73,788

11 (Loss)/profit for the year

	2020 £000	2019 £000
(Loss)/profit for the year has been arrived at after (crediting)/charging:		
Net foreign exchange gains	(530)	(32)
Depreciation of property, plant and equipment	6,120	5,602
Loss on disposal of property, plant and equipment	3	171
Amortisation of intangible assets	2,742	2,352
Impairment of goodwill	1,531	4,222
Decrease in fair value of investment property	4,984	3,900
Employee benefits expense including termination benefits	100,344	96,550

12 Auditor's remuneration

	2020 £000	2019 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	95	123
Fees payable to the Company's auditor and its associates for other services:		
- The audit of the Company's subsidiaries	853	772
Total audit fees	948	895
- Audit-related assurance services	264	276
Total non-audit fees	264	276
Fees payable to the Company's auditor in respect of associated pension schemes		
- The audit of associated pension schemes	-	17
Total auditor's remuneration	1,212	1,188

Deloitte LLP stepped down as auditor to the Group. PricewaterhouseCoopers LLP were appointed as the Group's auditor at the June 2020 AGM. The figures for 2019 relate exclusively to fees paid to Deloitte LLP. Amounts disclosed are net of services taxes, where applicable. Audit-related assurance services include Prudential Regulatory Authority (PRA) and other regulatory audit work.

Included within audit fees for the year ended 31 December 2020 is £42,000 relating to the Deloitte LLP audit for the year ended 31 December 2019 and £5,000 for the year ended 31 December 2020.

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:

	2020 General business No.	2020 Long-term business No.	2020 Other No.	(restated)* 2019 General business No.	(restated)* 2019 Long-term business No.	(restated)* 2019 Other No.
United Kingdom and Ireland	827	1	437	804	1	451
Australia	102	-	-	97	-	-
Canada	81	-	-	84	-	-
	1,010	1	437	985	1	451

* 2019 has been restated to include 23 full-time equivalent employees within United Kingdom and Ireland General Business for both Group and Parent which were previously omitted.

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 (2019: nil).

	2020 £000	2019 £000
Wages and salaries	85,537	81,972
Social security costs	8,191	7,913
Pension costs - defined contribution plans	6,724	5,364
Pension costs - defined benefit plans	1,427	2,233
Other post-employment benefits	112	154
	101,991	97,636
Staff costs recharged to related undertakings of the Group	(445)	(355)
Capitalised staff costs	(1,652)	(1,090)
	99,894	96,191

The above figures do not include termination benefits of £506,000 (2019: £359,000).

14 Tax expense

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

		2020 £000	2019 £000
Current tax	- current year	1,232	6,057
	- prior years	(370)	851
Deferred tax	- temporary differences	(5,614)	4,950
	- prior years		
	- impact of change in deferred tax rate	4,320	
Total tax (credit)/expense		(432)	11,858
Less: tax expense of discontinued operations			
Tax (credit)/expense of continuing operations		(432)	11,858

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:

	2020 £000	2019 £000
(Loss)/profit before tax	(17,776)	69,876
Tax calculated at the UK blended standard rate of tax of 19% (2019: 19%)	(3,377)	13,276
Factors affecting (credit)/charge for the year:		
Expenses not deductible for tax purposes	668	1,562
Non-taxable income	(1,505)	(3,200)
Long-term insurance and other tax paid at non-standard rates	91	(198)
Utilisation of tax losses for which no deferred tax asset has been recognised	(259)	(433)
Impact of change in deferred tax rate	4,320	-
Adjustments to tax charge in respect of prior periods	(370)	851
Total tax (credit)/expense	(432)	11,858

The 2020 Budget Resolution not to reduce the corporation tax rate to 17% from 1 April 2020 was passed on 17 March 2020 and as such the main rate of tax remained at 19%. Deferred tax has been provided at a rate of 19% (2019: 17%).

(b) Tax charged to other comprehensive income

	2020 £000	2019 £000
Current tax charged on:		
Fair value movements on hedge derivatives	(328)	129
Deferred tax (credited)/charged on:		
Fair value movements on property	(49)	-
Actuarial movements on retirement benefit plans	(3,874)	(1,349)
Fair value movements on hedge derivatives	63	(110)
Total tax charged to other comprehensive income	(4,188)	(1,330)

In the prior year, tax relief on charitable grants of £5,497,000 was taken directly to equity.

15 Appropriations

	2020 £000	2019 £000
Charitable grants		
Gross charitable grants to the ultimate parent company, Allchurches Trust Limited	-	30,000
Tax relief	-	(5,497)
Net appropriation for the year	-	24,503

16 Acquisitions

On 30 September 2020, SEIB Insurance Brokers Limited acquired WRS Insurance Brokers Limited (WRS).

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

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

	2020 £000	2019 £000
Assets		
Intangible assets	406	-
Goodwill	918	1,529
Property, plant and equipment	7	3
Debtors	45	567
Cash	371	
	1,747	2,099
Liabilities		
Creditors	167	70
	167	70
Total identified net assets	**1,580**	**2,029**
Satisfied by:		
Cash	1,162	1,817
Contingent consideration	418	212
Total consideration	1,580	2,029
Analysis of cash flows		
Cash paid	1,162	1,817
Net cash acquired with subsidiary	(371)	(456)
Net cash flow on acquisition	791	1,361

The goodwill of £918,000 arising from the acquisitions consists of intangible assets not qualifying for separate recognition, such as synergies and new business opportunities. None of the goodwill is expected to be deductible for tax purposes.

The contingent consideration arrangement requires a cash payment to be made on 1 October 2021. The amount paid is determined by an income target in the 'earn-out' period which ends on 30 September 2021. The maximum and minimum payments expected are £436,000 and £400,000 respectively (2019: £32,000 and £23,000).

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

From the date of acquisition, WRS has contributed £206,989 of revenue (2019: £115,000) and £80,565 (2019: £11,000) to the net profit before tax from the continuing operations of the group. If the acquisition had taken place at the begining of the year, revenue from continuing operations would have been £8,422,209 and the profit from continuing operations for the period would have been £203,818.

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

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 2020	542	4,629	5,171
Share of profit after tax for the period	601	-	601
Dividends received	(76)	-	(76)
At 31 December 2020	1,067	4,629	5,696

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

Group's 20% share of:	2020 £000
Revenue	3,459
Assets	8,326
Liabilities	(7,703)
Share of net assets	623

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

18 Goodwill and other intangible assets

Group	Goodwill £000	Computer software £000	Other intangible assets £000	Total £000
Cost				
At 1 January 2020	61,563	33,799	19,251	114,613
Additions	918	15,451	611	16,980
Disposals	-	(542)	-	(542)
Exchange differences	-	201	-	201
At 31 December 2020	62,481	48,909	19,862	131,252
Accumulated impairment losses and amortisation				
At 1 January 2020	17,042	19,137	14,023	50,202
Amortisation charge for the year	-	1,306	1,436	2,742
Impairment losses for the year	1,531	-	-	1,531
Disposals	-	(542)	-	(542)
Exchange differences	-	(35)	2	(33)
At 31 December 2020	18,573	19,866	15,461	53,900
Net book value at 31 December 2020	43,908	29,043	4,401	77,352
Cost				
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	61,563	33,799	19,251	114,613
Accumulated impairment losses and amortisation				
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	17,042	19,137	14,023	50,202
Net book value at 31 December 2019	44,521	14,662	5,228	64,411

£18,060,000 of the goodwill balance in the current and prior year relates to the acquisition of Lycetts Holdings Limited during 2011. £16,885,000 of the goodwill balance in the current and prior year relates to the acquisition of South Essex Insurance Holdings Limited during 2008. £4,392,000 of the goodwill balance in the current and prior year relates to the acquisition of Lansdown Insurance Brokers Limited during 2014. Goodwill of £1,496,000 relating to the acquisition of the assets of Funeral Planning Services Limited by Ecclesiastical Planning Services Limited during 2017 has been fully impaired in the year.

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 1.8% (2019: 1.6%) as being appropriate, based on medium-term rates published in the OBR's November report. The pre-tax discount rate of 9.8% (2019: 9.2%) 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.

The carrying amount of the investment in Lycetts Holdings Limited is £30,870,000 which includes £18,060,000 of goodwill. The calculated value in use was £30,980,000 indicating no impariment. This was calculated using projected cash flows to perpetuity, a discount rate of 9.8% and a growth rate beyond initial cash flow projections of1.8%. If the cumulative growth rate between 2021 and 2023 was 7.4% lower than assumed in management-approved business plans, or the discount rate increased by 0.7%, then the recoverable amount would equal the carrying amount. In the prior year the recoverable amount of the goodwill was lower than the carrying amount and an impairment was recognised. Lycetts Holdings Limited is included within the Group's Broking and Advisory segment.

The recoverable amount of the investment in South Essex Insurance Holdings Limited exceeds its carrying amount by £4,414,000 (2019: £8,769,000). If the cumulative growth rate between 2021 and 2023 was 2.9% lower than assumed in management-approved business plans, or the discount rate increased by 1.7%, 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. £1,982,000 (2019: £2,982,000) of the intangible assets balance relates to the acquisition of Lycetts Holdings Limited and has a remaining useful life of two years. £1,339,000 (2019: £1,562,000) of the intangible assets relates to the acquisition of the assets of Funeral Planning Services Limited and has a remaining useful life of six years.

19 Deferred acquisition costs

Group	2020 £000	2019 £000
At 1 January	38,199	33,907
Increase in the period	41,582	38,529
Release in the period	(38,230)	(33,976)
Exchange differences	438	(261)
At 31 December	41,989	38,199

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. Active members in employment at this date retained certain enhanced benefits after the plan closed to future accrual, including benefits in relation to death in service and ill health retirement. They 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. With effect from 1 January 2021, the two discrete sections of the scheme have been combined. This has no impact on the financial statements.

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 2019. As the scheme is closed to future accrual, no contribution is expected to be paid by the Group in 2021.

Actuarial valuations were reviewed and updated by an actuary at 31 December 2020 for IAS 19 purposes. 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. The EIO Section was in a deficit position on an IAS 19 basis at the year end.

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 (2019: £0.3m).

In the current year, actuarial losses arising from changes in financial assumptions of £56.2m (2019: actuarial losses of £61.9m) have been recognised in the statement of other comprehensive income. These losses resulted from a 0.6% decrease in the discount rate assumption for both defined benefit plans, combined with inflationary increases arising from a reduction in the gap between RPI and CPI following the announcement of the outcome of the UK Government's consultation on the future measure of RPI.

Actuarial gains of £5.9m have been recognised in the current year (2019: £13.6m) as a result of changes in demographic assumptions. This is mainly due to reviewing and updating the assumptions for the Group's main defined benefit plan, informed by the 2019 triennial valuation process. Updating for actual member experience since the previous triennial valuation of the Group's main plan and other financial assumption experience resulted in a gain of £15.0m in the current year (2019: £0.1m experience loss).

In the current year, the High Court issued a ruling relating to Guaranteed Minimum Pensions (GMP) equalisation for historic transfer values. The ruling, and the previous High Court ruling on GMP equalisation in 2018, relates to the Lloyds Bank pension scheme, and has implications for the EIO Section of the Group's main defined benefit plan. The impact of the ruling in the current year is estimated at £32,000 and is presented as a past service cost in the statement of profit and loss.

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 funding to be required if a deficit emerges. The Group's main defined benefit 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 defined benefit plan holds Liability Driven Investments (LDIs) to hedge part of the exposure of the scheme's liabilities to movements in interest rates.

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

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

- Currency risk: The 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 funding to be required if a deficit emerges. Currency derivative contracts are used from time to time, which would limit losses in the event of adverse movements in exchange rates.

The Trustees 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 equity price risk, 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 40% of the 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.

20 Retirement benefit schemes (continued)

The Trustees monitor investment performance and strategy over time to ensure the structure adopted continues to meet their objectives and to highlight opportunities to reduce investment risk and volatility where practical and affordable. 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	2020 £000	2019 £000
The amounts recognised in the statement of financial position are determined as follows:		
Present value of funded obligations	(422,778)	(388,115)
Fair value of plan assets	406,605	391,642
	(16,173)	3,527
Restrictions on asset recognised	-	-
Net asset in the statement of financial position	(16,173)	3,527
Movements in the net defined benefit pension scheme asset/(liability) recognised in the statement of financial position are as follows:		
At 1 January	3,527	12,134
Expense charged to profit or loss*	(1,427)	(2,522)
Amounts recognised in other comprehensive income	(18,573)	(7,678)
Contributions paid	300	1,593
Distribution of surplus		-
At 31 December	(16,173)	3,527
The amounts recognised through profit or loss are as follows:		
Current service cost	841	2,383
Administration cost	620	493
Interest expense on liabilities	7,285	9,023
Interest income on plan assets	(7,351)	(9,377)
Past service cost	32	-
Total, included in employee benefits expense	1,427	2,522
The amounts recognised in the statement of other comprehensive income are as follows:		
Return on plan assets, excluding interest income	16,618	40,740
Experience gains/(losses) on liabilities	15,033	(91)
Gains from changes in demographic assumptions	5,948	13,569
Losses from changes in financial assumptions	(56,172)	(61,896)
Total included in other comprehensive income	(18,573)	(7,678)

* Charge to profit or loss includes £nil (2019: £289,000) in respect of member salary sacrifice contributions.

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

	2020 £000	2019 £000
Pension assets	1,053	8,505
Pension liabilities	(17,226)	(4,978)
	(16,173)	3,527

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

	2020 %	2019 %
Discount rate	1.30	1.90
Inflation (RPI)	2.90	2.99
Inflation (CPI)	2.50	2.30
Future salary increases	4.41	4.22
Future increase in pensions in deferment	3.38	2.37
Future average pension increases (linked to RPI)	2.80	2.80
Future average pension increases (linked to CPI)	1.70	1.50

Mortality rate	2020	2019
The average life expectancy in years of a pensioner retiring at age 65, at the year end date, is as follows:		
Male	22.8	22.4
Female	24.1	23.9
The average life expectancy in years of a pensioner retiring at age 65, 20 years after the year end date, is as follows:		
Male	23.9	24.0
Female	25.6	25.7

Plan assets are as follows:	2020 £000	2019 £000
Cash and other*	39,462	24,221
Equity instruments		
UK quoted	86,031	97,063
UK unquoted	552	270
Overseas quoted	84,571	81,667
	171,154	179,000
Liability driven investments	57,519	41,781
Debt instruments		
UK public sector quoted - fixed interest	243	2,411
UK non-public sector quoted - fixed interest	69,356	72,306
UK quoted - index-linked	24,383	24,232
	93,982	98,949
Derivative financial instruments	885	2,396
Property	41,873	43,659
Other	1,730	1,636
	406,605	391,642

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

The actual return on plan assets was a gain of £23,969,000 (2019: gain of £50,117,000).

The underlying assets of the LDIs are primarily UK government bonds and interest rate repurchase agreements at various rates and terms.

The fair value of unquoted securities is measured using inputs for the asset that are not based on observable market data. The fair value is estimated and approved by the Trustee based on the advice of investment managers. Property is valued annually by independent qualified surveyors using standard industry methodology to determine a fair market value. All other investments either have a quoted price in active markets or are valued based on observable market data.

20 Retirement benefit schemes (continued)

	2020 £000	2019 £000
Plan assets		
At 1 January	391,642	352,415
Interest income	7,351	9,377
Return on plan assets, excluding interest income	16,618	40,740
Pension benefits paid and payable	(9,299)	(12,484)
Contributions paid	300	1,593
Employee contributions	56	61
Administration cost	(63)	(60)
At 31 December	406,605	391,642
Defined benefit obligation		
At 1 January	388,115	340,281
Current service cost	841	2,383
Administration cost	557	433
Past service cost	32	-
Interest cost	7,285	9,023
Pension benefits paid and payable	(9,299)	(12,484)
Employee contributions	56	61
Experience (gains)/losses on liabilities	(15,033)	91
Gains from changes in demographic assumptions	(5,948)	(13,569)
Losses from changes in financial assumptions	56,172	61,896
At 31 December	422,778	388,115

History of plan assets and liabilities	2020 £000	2019 £000	2018 £000	2017 £000	2016 £000
Present value of defined benefit obligations	(422,778)	(388,115)	(340,281)	(358,159)	(363,854)
Fair value of plan assets	406,605	391,642	352,415	374,017	339,246
	(16,173)	3,527	12,134	15,858	(24,608)
Restrictions on asset recognised	-	-	-	-	(144)
Surplus/(deficit)	(16,173)	3,527	12,134	15,858	(24,752)

The weighted average duration of the defined benefit obligation at the end of the reporting period is 21 years (2019: 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**	
		2020 £000	2019 £000
Discount rate	Increase by 0.5%	(41,407)	(42,194)
	Decrease by 0.5%	48,098	49,563
Inflation	Increase by 0.5%	34,172	33,808
	Decrease by 0.5%	(29,672)	(28,008)
Salary increase	Increase by 0.5%	6,800	5,600
	Decrease by 0.5%	(6,300)	(5,569)
Life expectancy	Increase by 1 year	21,053	16,377
	Decrease by 1 year	(20,763)	(16,277)

Post-employment medical benefits

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

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

- Interest rate risk: The reserves are assessed using market rates of interest to discount the liabilities and are therefore subject to volatility in the movement of the market rates of interest. A reduction in the market rate of interest would lead to an increase in the reserves required to be held.
- Medical expense inflation risk: Future medical costs are influenced by a number of factors including economic trends and advances in medical technology and sciences. An increase in medical expense inflation would lead to an increase in the reserves required to be held.
- Medical claims experience: Claims experience can be volatile, exposing the Group to the risk of being required to pay over and above the assumed reserve. If future claims experience differs significantly from that experienced in previous years this will increase the risk to the Group.
- Spouse and widows' contributions: The self-insured benefit includes a potential liability for members who pay contributions in respect of their spouse and for widows who pay contributions. There is the possibility that the contributions charged may not be sufficient to cover the medical costs that fall due.
- Mortality risk: If members live longer than expected, the Group is exposed to the expense of medical claims for a longer period, with increased likelihood of needing to pay claims.

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

	2020 £000	2019 £000
Present value of unfunded obligations and net obligations in the statement of financial position	6,530	5,998
Movements in the net obligations recognised in the statement of financial position are as follows:		
At 1 January	5,998	5,813
Total expense charged to profit or loss	112	154
Net actuarial losses during the year, recognised in other comprehensive income	463	238
Benefits paid	(43)	(207)
At 31 December	6,530	5,998
The amounts recognised through profit or loss are as follows:		
Interest cost	112	154
Total, included in employee benefits expense	112	154

The weighted average duration of the net obligations at the end of the reporting period is 13.1 years (2019: 13.3 years).

The main actuarial assumptions for the plan are a long-term increase in medical costs of 6.9% (2019: 7.0%) and a discount rate of 1.3% (2019: 1.9%). An actuarial loss of £513,000 has been recognised in the current year due to the 0.6% fall in discount rate. This has been partially offset by an actuarial gain of £88,000 arising from a fall in medical cost inflation. A small actuarial loss has been recognised due to changes in mortality assumptions. Benefits paid in the year fell due to the suspension of routine treatment as private facilities supported the NHS during the Covid-19 pandemic. 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	
		2020 £000	2019 £000
Discount rate	Increase by 0.5%	(404)	(371)
	Decrease by 0.5%	445	409
Medical expense inflation	Increase by 0.5%	851	782
	Decrease by 0.5%	(721)	(662)
Life expectancy	Increase by 1 year	576	529
	Decrease by 1 year	(527)	(484)

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
Cost or valuation						
At 31 December 2019	2,995	273	10,539	11,786	16,446	42,039
Additions	-	-	5,784	1,114	19,049	25,947
Acquisition	-	-	-	-	-	-
Disposals	-	-	(10)	(300)	(535)	(845)
Revaluation	(55)	-	-	-	-	(55)
Exchange differences	-	-	(2)	23	106	127
At 31 December 2020	2,940	273	16,311	12,623	35,066	67,213
Depreciation						
At 1 January 2020	-	206	6,877	8,482	3,666	19,231
Charge for the year	-	29	764	1,601	3,726	6,120
Disposals	-	-	(6)	(300)	(342)	(648)
Exchange differences	-	-	5	18	56	79
At 31 December 2020	-	235	7,640	9,801	7,106	24,782
Net book value at 31 December 2020	2,940	38	8,671	2,822	27,960	42,431
Cost or valuation						
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
Depreciation						
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
Net book value at 31 December 2019	2,995	67	3,662	3,304	12,780	22,808

*The Group adopted IFRS 16 from 1 January 2019.

All properties of the Group and Parent were last revalued at 31 December 2020. 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 value. All properties are classified as level 3 assets.

Movements in fair 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 fair 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 (2019: £3,098,000).

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

22 Investment property

Group	2020 £000	2019 £000
Net book value at 1 January	148,146	152,182
Additions - additional expenditure	-	191
Disposals	(1,020)	(327)
Fair value losses recognised in profit or loss	(4,984)	(3,900)
Net book value at 31 December	142,142	148,146

The Group's investment properties were last revalued at 31 December 2020 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 value. There has been no change in the valuation technique during the year. All properties are classified as level 3 assets. There have been no transfers between investment categories in the current year.

Investment properties are held for long-term capital appreciation rather than short-term sale. Rental income arising from the investment properties owned by both the Group and Parent amounted to £8,806,000 (2019: £8,538,000) and is included in net investment return.

23 Financial investments

Financial investments summarised by measurement category are as follows:

	2020		2019	
	Group £000	Parent £000	Group £000	Parent £000
Financial investments at fair value through profit or loss				
Equity securities				
- listed	262,598	-	289,753	-
- unlisted	69,285	9,997	77,404	11,100
Debt securities				
- government bonds	160,380	-	154,245	-
- listed	334,732	-	338,001	-
- unlisted	552	-	270	-
Derivative financial instruments				
- forwards	672	-	1,499	-
- options	1,407	-	1,562	-
	829,626	9,997	862,734	11,100
Financial investments at fair value through other comprehensive income				
Derivative financial instruments				
- forwards	401	-	509	-
	830,027	9,997	863,243	11,100
Loans and receivables				
Cash held on deposit	-	-	4,974	-
Other loans	15,728	14,982	4,542	3,747
Parent investments in subsidiary undertakings				
Shares in subsidiary undertakings				
- listed	-	-	-	-
- unlisted	-	43,960	-	41,649
Total financial investments	845,755	68,939	872,759	56,496
Current	335,916	-	383,158	582
Non-current	509,839	68,939	489,601	55,914

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 loss of £2,339,000 (2019: gain of £640,000) in respect of these 'hedge' derivatives has been recognised in the hedging reserve within shareholders' equity, as disclosed in note 28. 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	2020			2019	
	Contract/ notional amount £000	Fair value asset £000	Fair value liability £000	Contract/ notional amount £000	Fair value asset £000
Non-hedge derivatives					
Equity/Index contracts					
Options	40,597	1,407	-	58,588	1,562
Foreign exchange contracts					
Forwards (Euro)	96,000	672	-	116,603	1,499
Hedge derivatives					
Foreign exchange contracts					
Forwards (Australian dollar)	75,000	-	1,244	45,411	250
Forwards (Canadian dollar)	52,000	401	-	30,456	259
	263,597	2,480	1,244	251,058	3,570

Included within Equity/Index contracts are options with a contract/notional value of £nil (2019: £17,997,000), and fair value asset of £nil (2019: £734,000), 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).

25 Other assets

	2020 Group £000	2020 Parent £000	2019 Group £000	2019 Parent £000
Receivables arising from insurance and reinsurance contracts				
- due from contract holders	49,992	-	41,378	-
- due from agents, brokers and intermediaries	66,232	-	56,549	-
- due from reinsurers	11,005	-	11,177	-
Other receivables				
- accrued interest and rent	4,329	-	4,519	-
- other prepayments and accrued income	5,796	25	4,872	-
- amounts owed by related parties	88	1,868	89	6,050
- debtors arising from broking activities	14,876	-	16,114	-
- net investment in finance leases	236	-	366	-
- other debtors	15,155	-	15,190	-
	167,709	1,893	150,254	6,050
Current	164,099	93	146,644	250
Non-current	3,610	1,800	3,610	5,800

The Group has recognised a net credit of £759,000 (2019: net credit of £31,000) 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 £1,410,000 (2019: £1,255,000) classified as contract assets, and £1,890,000 (2019: £1,867,000) classified as receivables in accordance with IFRS 15.

Movement in the Group allowance for doubtful debts	2020 £000	2019 £000
Balance at 1 January	145	168
Movement in the year	578	(23)
Balance at 31 December	723	145

Included within trade receivables of the Group is £16,772,000 (2019: £11,557,000) overdue but not impaired, of which £14,165,000 (2019: £9,808,000) is not more than three months overdue at the reporting date.

26 Cash and cash equivalents

	2020 Group £000	2020 Parent £000	2019 Group £000	2019 Parent £000
Cash at bank and in hand	103,636	1,394	70,575	831
Short-term bank deposits	25,960	174	27,794	174
	129,596	1,568	98,369	1,005

Included within short-term bank deposits of the Group are cash deposits of £1,960,000 (2019: £1,007,000) 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 £4,131,000 (2019: £3,821,000) pledged as collateral by way of cash calls from reinsurers, and £14,919,000 (2019: £17,276,000) of restricted cash held on an agency basis.

27 Called up share capital

	2020 £000	2019 £000
Issued, allotted and fully paid		
Ordinary share capital:		
20,000,000 shares of £1 each	20,000	20,000

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

28 Translation and hedging reserve

Group	Translation reserve £000	Hedging reserve £000	Total £000
At 1 January 2020	13,572	4,752	18,324
Losses on currency translation differences	1,980	-	1,980
Gains on net investment hedges	-	(2,339)	(2,339)
Attributable tax	-	265	265
At 31 December 2020	15,552	2,678	18,230
At 1 January 2019	14,940	4,131	19,071
Losses on currency translation differences	(1,368)	-	(1,368)
Gains on net investment hedges	-	640	640
Attributable tax	-	(19)	(19)
At 31 December 2019	13,572	4,752	18,324

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 95.6% (2019: 96.8%) of the 106,450,000 (2019: 106,450,000) 8.625% Non-Cumulative Irredeemable Preference shares (NcIPs) in Ecclesiastical Insurance Office plc.

During 2020 the Parent acquired £1,275,000 of NcIPs in Ecclesiastical Insurance Office plc.

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

30 Insurance liabilities and reinsurance assets

Group	2020 £000	2019 £000
Gross		
Claims outstanding	560,992	481,669
Unearned premiums	230,800	203,096
Long-term business provision	283,427	262,500
Total gross insurance liabilities	1,075,219	947,265
Recoverable from reinsurers		
Claims outstanding	129,283	89,982
Unearned premiums	79,394	69,574
Long-term business provision	206,570	183,288
Total reinsurers' share of insurance liabilities	415,247	342,844
Net		
Claims outstanding	431,709	391,687
Unearned premiums	151,406	133,522
Long-term business provision	76,857	79,212
Total net insurance liabilities	659,972	604,421
Gross insurance liabilities		
Current	429,007	369,890
Non-current	646,212	577,375
Reinsurance assets		
Current	159,273	129,995
Non-current	255,974	212,849

(a) General business insurance contracts

(i) Reserving methodology

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

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

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

(ii) Calculation of uncertainty margins

To reflect the uncertain nature of the outcome of the ultimate settlement cost of claims, an uncertainty margin is added to the best estimate. The addition for uncertainty is assessed using actuarial methods including the Mack method and Bootstrapping techniques, based on at least the 75th percentile confidence level for each portfolio. For smaller portfolios, where these methods cannot be applied, provisions are calculated at a level intended to provide an equivalent probability of sufficiency. Where the standard methods cannot allow for changing circumstances, additional uncertainty margins are added and are typically expressed as a percentage of outstanding claims. From time to time, the management may elect to select an additional margin to reflect short-term uncertainty driven by specific events that are not in data. This approach generally results in a favourable release of provisions in the current financial year, arising from the settlement of claims relating to previous financial years, as shown in part (c) of the note.

(iii) Calculation of provisions for latent claims

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

(iv) Discounting

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

	Discount rate		Mean term of discounted liabilities	
Geographical territory	2020	2019	2020	2019
UK and Ireland	0.5% to 1.5%	1.3% to 2.2%	17	17
Canada	0.4% to 1.7%	1.9% to 2.0%	12	12
Australia	0.7%	1.2%	4	4

The above rates of interest are based on government bond yields of the relevant currency and term at the reporting date. Adjustments are made, where appropriate, to reflect portfolio assets held and to allow for future investment expenses. At the year end the undiscounted gross outstanding claims liability was £585,635,000 for the Group (2019: £516,068,000).

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

At 31 December 2020, it is estimated that a fall of 1% in the discount rates used would increase the Group's net outstanding claims liabilities by £20,715,000 (2019: £17,065,000). 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:

		2020		2019	
		Gross	Net	Gross	Net
		£000	£000	£000	£000
Liability	- UK	20,200	19,000	19,700	18,500
	- Overseas	14,900	12,200	12,100	10,200
Property	- UK	10,300	5,600	7,900	4,800
	- Overseas	7,200	2,600	4,900	1,900
Motor	- UK	200	200	200	200

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

Estimate of gross ultimate claims

	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	2019 £000	2020 £000	Total £000
At end of year	82,095	100,612	81,725	61,901	46,464	51,738	50,736	48,759	47,945	50,134	
One year later	76,371	88,046	80,027	50,571	43,582	46,073	46,885	40,461	42,467		
Two years later	71,543	78,196	69,860	48,327	40,337	41,041	41,883	34,680			
Three years later	68,587	72,516	66,192	45,495	33,804	38,468	38,648				
Four years later	60,841	67,980	60,174	37,064	29,436	37,044					
Five years later	59,914	62,712	56,912	34,606	28,211						
Six years later	57,950	61,213	54,901	34,962							
Seven years later	57,939	60,560	55,516								
Eight years later	57,790	62,025									
Nine years later	59,079										
Current estimate of ultimate claims	59,079	62,025	55,516	34,962	28,211	37,044	38,648	34,680	42,467	50,134	442,766
Cumulative payments to date	(51,823)	(54,716)	(46,905)	(25,553)	(17,590)	(19,540)	(13,547)	(9,264)	(5,342)	(1,410)	(245,690)
Outstanding liability	7,256	7,309	8,611	9,409	10,621	17,504	25,101	25,416	37,125	48,724	197,076
Effect of discounting											(6,824)
Present value											190,252
Discounted liability in respect of earlier years											159,442
Total discounted gross liability (for liability classes) included in insurance liabilities in the statement of financial position											349,694

Estimate of net ultimate claims

	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	2019 £000	2020 £000	Total £000
At end of year	75,302	88,247	76,729	59,633	42,739	47,402	45,920	44,053	44,230	45,459	
One year later	72,336	79,272	66,475	47,690	40,397	41,631	41,706	37,456	39,842		
Two years later	68,057	73,735	60,075	47,428	37,740	37,740	37,797	32,867			
Three years later	66,822	69,837	55,710	41,494	32,297	36,337	34,818				
Four years later	60,314	65,872	51,482	35,164	28,506	35,217					
Five years later	59,521	60,800	49,196	33,233	27,418						
Six years later	57,641	59,338	47,518	33,309							
Seven years later	57,591	59,061	47,443								
Eight years later	57,439	60,056									
Nine years later	58,462										
Current estimate of ultimate claims	58,462	60,056	47,443	33,309	27,418	35,217	34,818	32,867	39,842	45,459	414,891
Cumulative payments to date	(51,448)	(53,318)	(39,244)	(24,373)	(17,590)	(19,482)	(13,547)	(9,262)	(5,333)	(1,406)	(235,003)
Outstanding liability	7,014	6,738	8,199	8,936	9,828	15,735	21,271	23,605	34,509	44,053	179,888
Effect of discounting											(6,824)
Present value											173,064
Discounted liability in respect of earlier years											142,764
Total discounted net liability (for liability classes) included in insurance liabilities in the statement of financial position											315,828

(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. 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:

	2020	2019
UK and overseas government bonds: non-linked	0.28%	0.61%
UK and overseas government bonds: index-linked	-2.72%	-2.18%
Corporate debt instruments: index-linked	-2.23%	-1.64%

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 (2019: £2.50 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 £5.8 million (2019: £5.7 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 4.07% per annum (2019: 4.08%).

Tax

It has been assumed that tax legislation and rates applicable at 31 December 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 £5.0 million (2019: £2.5 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 £0.7 million increase (2019: £0.4 million increase).

There has been no material 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.

	Change in variable	Potential increase/ (decrease) in the result	
Variable		2020 £000	2019 £000
Deterioration in annuitant mortality	+10%	1,300	1,000
Improvement in annuitant mortality	-10%	(1,600)	(1,100)
Increase in fixed interest/cash yields	+1% pa	200	500
Decrease in fixed interest/cash yields	-1% pa	(700)	(600)
Worsening of base renewal expense level	+10%	(200)	(700)
Improvement in base renewal expense level	-10%	300	600
Increase in expense inflation	+1% pa	(600)	(900)
Decrease in expense inflation	-1% pa	500	700

(c) Movements in insurance liabilities and reinsurance assets

Group	Gross £000	Reinsurance £000	Net £000
Claims outstanding			
At 1 January 2020	481,669	(89,982)	391,687
Cash (paid)/received for claims settled in the year	(164,511)	59,025	(105,486)
Change in liabilities/reinsurance assets			
- arising from current year claims	240,869	(97,273)	143,596
- arising from prior year claims	(16,741)	2,691	(14,050)
- change in discount rate	11,810	(897)	10,913
Exchange differences	7,896	(2,847)	5,049
At 31 December 2020	560,992	(129,283)	431,709
Provision for unearned premiums			
At 1 January 2020	203,096	(69,574)	133,522
Increase in the period	228,361	(78,170)	150,191
Release in the period	(203,377)	69,748	(133,629)
Exchange differences	2,720	(1,398)	1,322
At 31 December 2020	230,800	(79,394)	151,406
Long-term business provision			
At 1 January 2020	262,500	(183,288)	79,212
Effect of new business in the year	24,033	(29,582)	(5,549)
Effect of claims during the year	(18,195)	17,118	(1,077)
Changes in assumptions	(704)	(4)	(708)
Change in discount rate	8,853	(3,862)	4,991
Other movements	6,940	(6,952)	(12)
At 31 December 2020	283,427	(206,570)	76,857
Claims outstanding			
At 1 January 2019	457,319	(78,731)	378,588
Cash (paid)/received for claims settled in the year	(139,221)	40,808	(98,413)
Change in liabilities/reinsurance assets			
- arising from current year claims	189,646	(58,688)	130,958
- arising from prior year claims	(32,165)	5,888	(26,277)
- change in discount rate	10,549	(599)	9,950
Exchange differences	(4,459)	1,340	(3,119)
At 31 December 2019	481,669	(89,982)	391,687
Provision for unearned premiums			
At 1 January 2019	180,766	(61,615)	119,151
Increase in the period	204,691	(70,165)	134,526
Release in the period	(180,862)	61,416	(119,446)
Exchange differences	(1,499)	790	(709)
At 31 December 2019	203,096	(69,574)	133,522
Long-term business provision			
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

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 2019	2,565	23	2,847	5,435
Acquisition	-	418	-	418
Additional provisions	5,644	-	1,465	7,109
Used during year	(5,859)	(22)	(54)	(5,935)
Not utilised	(21)		-	(21)
Exchange differences			7	7
At 31 December 2020	2,329	419	4,265	7,013
Current	2,329	419	1,704	4,452
Non-current	-	-	2,561	2,561

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 2020	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 adopted IFRS 16 from 1 January 2019.

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 WRS Insurance Brokers 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.

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 2019	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
(Credited)/charged to profit or loss	(6,787)	(201)	(791)	2,165	(5,614)
Charged/(credited) to profit or loss					
- Impact of change in deferred tax rate	4,154	205	146	(185)	4,320
Credited to other comprehensive income	-	(3,619)	-	(9)	(3,628)
(Credited)/charged to other comprehensive income					
- Impact of change in deferred tax rate	-	(256)	-	24	(232)
Exchange differences	(4)	-	-	(77)	(81)
At 31 December 2020	32,326	(4,309)	789	(693)	28,113

Parent

The deferred tax liability, shown below, arises on unrealised gains on investments. The decrease of £114,000 (2019: £225,000), 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:

	2020		2019	
	Group £000	Parent £000	Group £000	Parent £000
Deferred tax liabilities	30,615	769	36,532	883
Deferred tax assets	(2,502)	-	(3,184)	-
	28,113	769	33,348	883

The Group has unused tax losses of £13,414,000 (2019: £13,361,000) 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.

33 Other liabilities

	2020 Group £000	2020 Parent £000	2019 Group £000	2019 Parent £000
Creditors arising out of direct insurance operations	3,055	-	2,215	-
Creditors arising out of reinsurance operations	39,190	-	26,652	-
Derivative liabilities	1,244	-	-	-
Creditors arising from broking activities	18,012	-	21,871	-
Other creditors	21,252	-	18,978	-
Amounts owed to related parties	-	-	56	338
Accruals	25,627	84	28,898	167
	108,380	84	98,670	505
Current	107,934	84	98,251	505
Non-current	446	-	419	-

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 £308,000 (2019: £278,000) 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 2019	11,437	1,038	305	12,780
Additions	18,575	474	-	19,049
Disposals	-	(193)	-	(193)
Depreciation expense	(3,354)	(254)	(118)	(3,726)
Exchange differences	46	4	-	50
At 31 December 2020	26,704	1,069	187	27,960

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	11,437	1,038	305	12,780

Set out below are the carrying amounts of lease obligations:

Group	2020 £000	2019 £000
Current	3,873	3,242
Non-current	24,278	11,268
	28,151	14,510

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

	2020 £000	2019 £000
Depreciation expense of right of use assets	3,726	3,155
Interest expense on lease liabilities	930	671
Expenses relating to short-term leases	9	-
	4,665	3,826

The Group had total cash outflows for leases, including interest, of £6,188,000 (2019: £3,706,000). 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.

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.

	2020 £000	2019 £000
Year 1	131	134
Year 2	110	134
Year 3	-	111
Undiscounted lease payments	241	379
Less: unearned finance income	(5)	(13)
Net investment in the lease	236	366

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	2020 £000	2019 £000
Selling profit for finance leases	-	21
Finance income on the net investment in finance leases	7	8
	7	29

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:

	2020 £000	2019 £000
Year 1	8,162	8,234
Year 2	7,290	7,656
Year 3	6,773	6,850
Year 4	6,390	6,455
Year 5	5,441	6,160
After 5 years	22,163	29,065
	56,219	64,420

35 Commitments

At the year end, the Group and Parent had no capital commitments relating to computer software (2019: £2,559,000) and £2,506,000 capital commitments (2019: £nil) relating to furniture, fittings and equipment.

The Group has lease contracts for right of use assets that had not commenced at 31 December 2020. These leases will commence in 2021. The lease for other equipment has a term of 6 years with expected cash outflow of £12,000 per annum. The lease for motor vehicles has a term of 4 years with an expected cash outflow of £23,000 per annum.

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 2020 is as follows:

Company	Company Registration Number	Share Capital	Holding of shares by Company	Holding of shares by Group	Activity
Subsidiary undertakings					
Incorporated in the United Kingdom					
Ecclesiastical Insurance Office plc *	24869	Ordinary	100%	-	Insurance
		Preference	3.2%	-	
Benefact Management Services Limited * ^	1811698	Ordinary	100%	-	Dormant company
Ecclesiastical Life Limited *	0243111	Ordinary	-	100%	Life insurance
Ecclesiastical Financial Advisory Services Limited *	2046087	Ordinary	-	100%	Independent financial advisory
Ecclesiastical Planning Services Limited *	02644860	Ordinary	100%	-	Funeral plan administration
Ecclesiastical Underwriting Management Limited *	02368571	Ordinary	100%	-	Insurance management services
EdenTree Investment Management Limited *	2519319	Ordinary	-	100%	Investment management
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
SEIB Insurance Brokers Limited*	06317314	Ordinary	-	100%	Insurance agents and brokers
South Essex Insurance Holdings Limited *	06317313	Ordinary	-	100%	Investment holding company
WRS Insurance Brokers Limited *	0878984	Ordinary	-	100%	Dormant company
Incorporated in Australia					
Ansvar Insurance Limited ***	007216506	Ordinary	-	100%	Insurance
Ansvar Risk Management Services Pty Limited ***	623695054	Ordinary	-	100%	Risk management services
Ansvar Insurance Services Pty Limited *** †	162612286	Ordinary	-	100%	Dormant company
Associated undertakings					
Incorporated in the United Kingdom					
Lloyd & Whyte Group Limited****	01143899	Ordinary	20%	-	Insurance agents and brokers

* Registered office: Benefact House, 2000 Pioneer Avenue, Gloucester Business Park, Brockworth, Gloucester, GL3 4AW, 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

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
2020			
Group			
Trading, investment and other income, including recharges, and amounts received	252	-	2,628
Trading, investment and other expenditure, including recharges, and amounts paid	-	-	12,002
Amounts owed by related parties	-	-	15,069
Amounts owed to related parties	-	-	-
Parent			
Trading, investment and other income, including recharges, and amounts received	-	13,635	1,668
Trading, investment and other expenditure, including recharges, and amounts paid	-	1,034	12,002
Amounts owed by related parties	-	2,038	14,982
Amounts owed to related parties	-	51,116	-
2019			
Group			
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
Parent			
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

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 £12,002,000 (2019: £5,828,000).

Amounts owed to related parties by the Parent includes borrowings of £50,883,000 (2019: £37,758,000) and amounts classified within other liabilities of £nil (2019: £338,000) disclosed in note 33.

	2020 £000	2019 £000
Key management personnel		
Wages and salaries	3,645	4,713
Social security costs	558	443
Pension costs - defined contribution plans	241	213
Fees and benefits for non-executive directors	606	568
	5,050	5,937

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.

37 Related party transactions (continued)

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

	2020 £000	2019 £000
Salaries and other short-term employee benefits	2,339	2,423
Long-term cash incentive	548	808
Post-employment benefits	150	126
	3,037	3,357

Directors' remuneration includes amounts paid in Canadian dollars. An average exchange rate of 1.8702 Canadian dollars to 1 GBP has been used in respect of the current and prior year.

Post-employment benefits includes £112,000 (2019: £57,000) in respect of contributions to a defined contribution scheme.

No directors who were employed by Ecclesiastical Insurance Office plc were members of the Group's defined benefit pension scheme during the year (2019: no directors). One director (2019: one) was a member of the Group's defined contribution scheme during the year.

		2020 £000	2019 £000
Highest paid director	- emoluments	1,116	1,489
	- money purchase pension contributions	-	-
Chairman's fees *		145	118

*Mr Henderson was appointed as Chairman of the Group on 19 March 2019.

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).

		2020						
		Insurance		Inv'ment return	Inv'ment mngt	Broking and Advisory	Corporate costs	Total
		General	Long-term					
		£000	£000	£000	£000	£000	£000	£000
Revenue								
Gross written premiums		437,287	29,612	-	-	-	-	466,899
Outward reinsurance premiums		(173,074)	(29,600)	-	-	-	-	(202,674)
Net change in provision for unearned premiums		(16,562)	-	-	-	-	-	(16,562)
Net earned premiums	[1]	247,651	12	-	-	-	-	247,663
Fee and commission income	[2]	47,743	-	-	12,393	34,884	-	95,020
Other operating income		2,126	-	-	-	-	-	2,126
Net investment return		-	(485)	(5,132)	(25)	808	-	(4,834)
Total revenue		297,520	(473)	(5,132)	12,368	35,692	-	339,975
Expenses								
Claims and change in insurance liabilities		(224,127)	(34,154)	-	-	-	-	(258,281)
Reinsurance recoveries		94,581	35,487	-	-	-	-	130,068
Fees, commissions and other acquisition costs	[3]	(84,852)	(13)	-	(832)	(548)	-	(86,245)
Other operating and administrative expenses	[4]	(71,069)	(379)	(2,832)	(12,647)	(34,508) [5]	(21,533)	(142,968)
Total operating expenses		(285,467)	941	(2,832)	(13,479)	(35,056)	(21,533)	(357,426)
Operating profit	[6]	12,053	468	(7,964)	(1,111)	636	(21,533)	(17,451)
Finance costs		(686)	-	-	-	(240)	-	(926)
Share of profit after tax of associate		-	-	-	-	601	-	601
Profit before tax		11,367	468	(7,964)	(1,111)	997	(21,533)	(17,776)
Underwriting profit	[6]	12,053						
Combined operating ratio		95.1%						
Net expenses (= [2] + [3] + [4] + [5])	[7]	(129,711)						
Net expense ratio		52%						

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].

		2019						
		Insurance		Inv'ment return	Inv'ment mngt	Broking and Advisory	Corporate costs	Total
		General	Long-term					
		£000	£000	£000	£000	£000	£000	£000
Revenue								
Gross written premiums		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
Total revenue		275,911	976	73,895	12,817	35,777	-	399,376
Expenses								
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)
Total operating expenses		(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
Profit before tax		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)						
Net expense ratio		53%						

39 Events after the balance sheet date

In February 2021 the Group raised EUR 30m in nominal amount of Tier 2 Capital by way of a privately-placed issue of 20-year subordinated bonds, callable after year 10. The rate of interest until the call date is fixed at 6.3144%.