Company Number 1718196

ECCLESIASTICAL

ECCLESIASTICAL INSURANCE GROUP plc

2013 ANNUAL REPORT

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DIRECTORS

Directors	* W M Samuel BSc, FCA *Chairman* * D Christie BA, BSc (Econ) Dip Ed *Deputy Chairman* * T Carroll BA (Hons), FCII, MBA M C J Hews BSc, FIA *Group Chief Executive* * J F Hylands FFA * A. P Latham ACII Mrs S. J Whyte MC Inst M, ACII *Deputy Group Chief Executive* * The Venerable C L Wilson * Ms D P Wilson BA (Hons), FCII
Company Secretary	Mrs R J Hall FCIS
Registered and Head Office	Beaufort House, Brunswick Road, Gloucester GL1 1JZ Tel 0845 777 3322
Company Registration Number	1718196
Investment Management Office	19-21 Billiter Street, London EC3M 2RY Tel 0845 604 4840
Auditor	Deloitte LLP, London
Legal Advisors	Speechly Bircham LLP, London

* *Non-Executive Directors*

STRATEGIC REPORT

The Directors present the Strategic Report of the Company for the year ended 31 December 2013

Group Chief Executive's Review
Ecclesiastical plays a unique role in the financial services industry in the UK We are one of the only specialist financial services groups owned by a charity, an ownership which drives the Group's ethos and values and ensures that meeting our customers' needs is right at the heart of our business model I feel honoured to have been asked to work with a talented Board and team to lead the Group forward

My first seven months as Group Chief Executive have provided me with the opportunity to visit all of our business units, and speak with employees, customers and business partners I was encouraged that we are already perceived by many as a Group that is determined to do right by its customers This has reinforced my view that Ecclesiastical is ideally placed to build on its reputation and expertise as a specialist to continue to generate profits for the benefit of our charitable owner, Allchurches Trust Limited This is the platform that I want to build on However, two other key themes have emerged during the year as critical opportunities which we need to pursue

Firstly, there was a consistent theme that we needed to refocus the Group in order to deliver results This has involved going through every part of our business, thoroughly and systematically, and taking robust, decisive action to ensure that every part of our Group contributes a suitable return to support our future charitable giving

Secondly, there was a desire from all of our stakeholders to make a fresh start, to step up our energy and drive to take the Group forward with a strategy which gives each of our Specialist Insurance, Investment Management and Broking and Advisory divisions a clear and compelling direction

As a result we have refocused our strategy on the areas where we can differentiate ourselves from our competitors, building on our ethos, values and past success My ambition is captured in our new objective to be the most trusted and ethical specialist financial services group, with the aim of giving £50m to charity over the next three years

Delivering our Results
Overall it has been a successful year for Ecclesiastical, with pre-tax profits of £65m (2012 £43m), resulting from strong investment returns and a mixed underwriting performance, enabling us to give an interim grant of £4m to Allchurches Trust Limited in respect of 2013 with a further grant of £8 5m approved by the Board in March 2014

Our investment performance outperformed benchmarks in most asset classes, contributing to a strong return of £75m (2012 £57m)

General insurance
2013 saw a number of changes for our general insurance operations as we began to refocus the business Our underwriting performance for the year was a loss of £8 2m (2012 £24 6m loss), resulting in a Group COR of 102 9% (2012 108 5%)

United Kingdom
Our insurance businesses in the UK reported an underwriting profit of £9 8m (2012 £12 3m loss)

The UK business has been repositioned as a specialist insurer We have withdrawn from the motor insurance market and from the non-charitable care sector to focus on our core business where we can leverage our underwriting expertise The new regional structure will enable us to be an underwriting-led specialist insurer operating closer to the communities in which we serve

Towards the end of 2013, the St Jude storm coupled with the December storms and floods impacted our property account Prior to these storms and floods 2013 was a relatively benign year for weather events, enabling us to deliver a profit on our property account ahead of expectations

We continued to focus on our liability business, ensuring that our preferred risks were priced appropriately However, claims experience has led to a strengthening of our liability abuse and asbestos reserves Despite the remedial action taken in 2012 to mitigate the losses, particularly in the care sector, we have taken the decision to exit the non-charitable care sector during the year

The repositioning and refocusing of the business has resulted in GWP decreasing by 13% in the year to £291 3m (2012 £336 6m)

Ireland
An underwriting loss of £9 1m (2012 £6 2m loss) was reported by our general insurance operation in Ireland, driven by losses across the liability portfolio Remedial underwriting actions undertaken during 2012 and 2013 will take time to fully impact the underwriting result, although the second half of 2013 saw a marked improvement in the underlying performance of the liability account The property account returned a healthy profit

Despite achieving rate increases, the refocusing of the business has led to a higher than expected lapse rate A 3% fall in GWP to £13 6m (2012 £14 0m) is reported

STRATEGIC REPORT

Australia

Australia reported an underwriting loss of £4 2m (2012 £5 2m loss) We have continued the transformation of our Australian business, and in 2013 the underwriting performance of the underlying portfolio has been strong with a gross COR of 71% However, despite all the actions taken, the cost of reinsurance has remained uneconomically high following the catastrophe events in Australia that took place in 2011, which has significantly impacted the net results with a net COR of 114 8%

We recognised that the cost of the existing business model for Australia was unsustainable in the longer term and have therefore moved to a 100% quota share arrangement for property business which became effective from 1 January 2014 As a result of the new quota share arrangement, the £6 5m unexpired risk reserve that we were holding at the end of 2012 was released, which has more than halved the reported underwriting loss The liability business has continued to perform well during 2013

The 30% fall in GWP to £45 7m (2012 £65 1m) is a result of the transformation work carried out in Australia to reduce our exposure to catastrophe risk. This has included exiting personal lines business during 2011 and 2012 and reducing our exposure to property risks in high catastrophe risk areas

Canada

Our Canadian branch reported an underwriting loss of £1 1m (2012 £0 3m loss), having been impacted by catastrophe weather events during the year Canada experienced its largest insured natural catastrophe event in history when flooding hit Calgary on 21 June 2013 The careful management of our exposure and effective reinsurance programme contained both the gross cost (£6 7m) and net cost (£1 2m) for the branch This was closely followed by the Toronto rainstorm on 8 July 2013, which was the third worst natural catastrophe in Canadian history, again this was contained at a £0 9m net loss for the branch The resulting losses on the property account, however, offset the strong profits generated by the liability account.

Canada continued its track record of strong year-on-year growth in GWP, which increased by 11% to £41 2m (2012 £37 0m) with good retention rates of 94%

Central operations

Profits from internal reinsurance arrangements and positive movements on claims expenses for run-off operations in this segment were offset by corporate underwriting costs and a strengthening of reserves in respect of adverse development reinsurance cover sold to ACS (NZ) Limited in 2012, resulting in an overall loss of £3 7m (2012 £0 6m loss) We entered into a contract with ACS to provide additional reinsurance cover in respect of the February 2011 Christchurch earthquake Under the terms of this contract, the Group must meet the cost of any claims from this event that are in excess of the value of other reinsurance contracts already in place up to an agreed maximum of approximately NZ$24m (£12m) At the end of 2013 we held a reserve of NZ$18 7m (£9 3m) in respect of this contract.

Investments

Global economic expansion was restrained by three main forces in 2013, a recession in the Eurozone, fiscal consolidation in the United States and a structural slowdown in many emerging markets Despite this, equity markets across developed economies delivered strong returns, outperforming emerging market assets and global bond indices

The UK economy outperformed the majority of its European counterparts in 2013 Whilst the decline in real wages continued, domestic consumer spending grew, which was supported by improving credit conditions, low interest rates, solid employment growth and a resurgent housing market. The Bank of England, however emphasised that interest rates would not be increased until the UK economy demonstrated a more established recovery

Over the course of 2013, the FTSE All Share Index produced a total return of 20 8% compared with 18 7% posted by the FTSE 100 Our UK equity portfolio increased by 24 4%, outperforming both indices, reflecting its higher weighting to medium-sized companies The improved market confidence experienced over the course of the year supported the closure of our equity futures contracts that were put in place to limit potential losses in equity markets

Our UK bond portfolio produced a total return of 1 6% in 2013, while the FTSE Government All Stocks Index recorded a -4 0% total return over the course of the year as investors began to price in the possibility of a near-term increase in base rates as the domestic economy improved Our preference for corporate bonds over gilts, together with our weighting towards shorter-dated bonds enabled us to outperform the index

Investment Management

Ecclesiastical Investment Management (EIM) saw continued growth in funds under management, which have increased to £2 2bn reflecting new business inflows and positive market movements

EIM attracted nearly £100m net new flows from third parties into Ecclesiastical Investment Funds, which resulted in us climbing further up the rankings of top-selling asset managers on the platforms A further £2m was invested into our special charity investment vehicle Overall fee income for EIM increased by 21% to £12 8m, and this mainly reflects the growth of pooled funds to over £890m Pre-tax profits increased by nearly 45% to £1 7m

STRATEGIC REPORT

EIM further consolidated its position as a leader in sustainable and responsible investment, with the company winning the Moneyfacts Best Ethical Investment Provider Award for the fifth consecutive year and Blue & Green Tomorrow's Sustainable Fund Manager of the Year

EIM and its funds continued to win awards the Amity Sterling Bond Fund won Money Observers Best Ethical / SRI bond Fund, and the Higher Income Fund was named Best Fund (Mixed Asset Class) over five years by Lipper Our Fund Managers continue to be highly rated, with Robin Hepworth rated by Trustnet as an Alpha Trustnet Manager, placing him in the top 10% of all Fund Managers Andrew Jackson and Sue Round currently hold Citywire ratings of AAA for their three-year risk-adjusted performance

Long-term insurance
Ecclesiastical Life Limited ceased writing new funeral plan business from the end of April 2013 Since then, the insurance policies backing the funeral plans have been written by an alternative life insurance company

Our life business recorded a profit of £0 4m, which was in line with our expectations of modest profits emerging from the existing book of business

Broking and Advisory
South Essex Insurance Brokers (SEIB) continued to provide a steady and consistent income stream to the Group The equine and pets insurance market is very competitive, and although SEIB benefits from its operations in niche markets, commission and fee income only grew by 1% to £7 3m (2012 £7 2m) Net profit before tax was in line with 2012 at £2 5m

We once again increased our stake in Lycetts Holdings Limited (Lycetts) during the year and now hold a 75 0% stake (2012 72 6%) It is envisaged that the acquisition will be completed in 2014 Similarly to SEIB, the markets that Lycetts operate in are very competitive and while they continued to contribute a healthy profit to the Group the growth that had been targeted was not achieved Net profit before tax was £3 3m (2012 £4 1m)

EFAS, our small financial advisory business, has reported a loss before tax of £0 8m During the year EFAS rationalised its Independent Financial Advisers business in order to provide a more focused approach to our core church market. Fee and commission income, however, increased by 91% in the year as EFAS began providing administration services for the NAFD funeral plan offering

Shaping our business for the future
To support and grow these results, we are tackling the unprofitable areas of our business and shaping it for the future We have delivered on many actions this year, and have seen our underwriting loss reduce to a third of that reported in 2012 (2013 £8m loss, 2012 £25m loss)

Following the announcement in 2012, we withdrew from the UK motor insurance market during 2013, as this did not fit with our strategy of being a specialist insurer This has resulted in a reduction of £26m Gross Written Premiums (GWP) but has cut our exposure to a market that is typically price driven and has been loss making for the vast majority of insurers over many years

In July I was delighted when S Jacinta Whyte accepted a new role as Deputy Group Chief Executive, and also assumed direct control over the UK General Insurance business We have started the process of restructuring the UK General Insurance divisions to make it easier for customers and business partners to do business with us

We have reshaped our management structure to create a greater focus and drive behind each of our business areas and we have strengthened our regional operations for intermediated business to enhance our service offering to customers, taking our decision-making closer to brokers These changes will help to support our objective of being the most trusted and ethical specialist financial services group

During July, following underwriting losses seen in 2012 and again this year, as a result of continuing increases in the frequency and severity of liability claims, we concluded a detailed strategic review of our insurance business in Ireland The outcome of this review has resulted in exiting some liability-led business mainly within the motor and care markets, where we don't believe we can make a profit in the long-term We are pushing through appropriate rate increases on the liability business retained We can see good opportunities for profitable growth in Ireland but within a much tightened risk appetite focusing on property-led faith, charity and heritage business

In November we announced our exit from the non-charitable care market in the UK, a sector where liability claims have escalated over recent years, particularly in relation to abuse claims This allows us to focus our underwriting on providing insurance to the customer segments that closely align to our ethical objectives

In December we concluded the negotiation of new reinsurance arrangements for our business in Australia to commence in 2014 It had become clear that the existing business model for Australia was unsustainable Reinsurance costs rose substantially following the catastrophe events in Australia during 2011, which made it difficult for smaller operations to be profitable By moving to a 100% quota share arrangement in 2014 for the property business we expect to return underwriting back to profitability

In the same month, Andrew Moon, Chief Executive of Ansvar Australia, announced his retirement Andrew has led our business in Australia through one of the most challenging periods in its history, and I would like to thank him for leaving it well on track to achieve its vision to be the leading insurer in its specialist segments We recently announced the appointment of Warren Hutcheon as the new Chief Executive of Ansvar Australia Warren is currently Chief Executive of the Victorian Managed Insurance Authority, and will take up his new position with us in early May 2014

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 section of the Strategic Report in the accounts of Ecclesiastical Insurance Office plc The core business of the Group is general insurance, thus insurance risks, including business mix, underwriting and pricing risk, reinsurance risk, claims reserving risk and competition and distribution risk, are all principal risks

Summary and outlook
We have achieved a lot in 2013 through the hard work and commitment of our employees, working together in what have often been very challenging circumstances Whilst there is much to do in the years ahead, I believe we have made strong initial progress and I have been impressed at how so many colleagues have risen to the challenge I would like to thank everyone for the contribution they have made this year

Our capital strength has been maintained throughout the challenges of the last few years, and our net assets have ended the year at a record high of £530m (2012 £494m) I believe that we have much to look forward to in 2014 and beyond, but there is no doubt that we will continue to face challenges from the competitive environment in which we operate

Equity markets have performed strongly over the last two years, but that level of return cannot be guaranteed in the future Our underwriting results have started to reflect the decisive actions that we have taken to return the Group to stable underwriting profits, but the frequency and severity of liability claims, including those relating to physical and sexual abuse could remain a challenge for us We also need to ensure that we continue to communicate effectively with our broker partners and customers as we make the changes necessary to reshape our business for the future

We make a real difference to the lives of people in the markets and communities in which we operate, and I believe that our financial strength and committed ethical approach give our business strong foundations upon which we can build our charitable giving We have high aspirations, to give £50m to charity over the next three years, and there is so much goodwill and energy drawing us together to achieve this

I thank all existing supporters of the Group for their contribution in helping us achieve our objectives It is only with this support that we can give so much to good causes I would also like to take the opportunity to welcome others, whether prospective customers, business partners or employees, to consider joining us

I feel confident that with everyone's ongoing support and commitment to deliver the changes required we will continue to build a Group that always seeks to stand by its customers, a Group that gives so much to charitable causes and a Group of which we can all be proud

By order of the Board

Mark Hews
Group Chief Executive, Ecclesiastical Insurance Group plc
24 April 2014

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, Ireland, Canada and Australia A list of the main subsidiary undertakings is given on page 64

Ownership
At 23 April 2014 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

Tim Carroll was appointed as a Director of the Company on 2 April 2013 Mark Hews was appointed Group Chief Executive on 1 May 2013 Michael Tripp and Steve Wood resigned as directors on 21 May 2013 and 12 June 2013 respectively Jacinta Whyte was appointed as Deputy Group Chief Executive on 16 July 2013

All Directors that have served since the last Annual General Meeting (AGM) will be proposed for re-election at the forthcoming AGM Jacinta Whyte was appointed following the AGM and will therefore be proposed for election at the forthcoming AGM

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

Neither the Directors nor their connected persons held any beneficial interest in any Ordinary shares of group companies during the year ended 31 December 2013 There has been no change in these interests since the end of the financial year to the date of this report

The following Directors of the Company, and their connected persons, held Preference shares in the capital of the Company at 31 December 2013

Director	**Nature of Interest**	**Number of EIO Non-Cumulative Irredeemable Preference Shares held**	
		31 12 2013	**31 12 2012**
David Christie	Director	11,079	11,079
Mark Hews	Connected person	75,342	75,342
Will Samuel	Director	151,000	151,000

There has been no change in these interests since the end of the financial year to the date of this report

No contract of significance subsisted during or at the end of the financial year in which a Director was or is materially interested

Dividends
The Directors do not recommend the payment of a dividend for the year ended 31 December 2013 (2012 £nil)

Charitable and political donations
Charitable donations paid and provided for by the Group in the year amounted to £5 5 million (2012 £5 7 million)

During the last ten years, a total of £97 3 million (2012 £96 3 million) has been provided by Group companies for church and charitable purposes

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

Employees
The Group recognises the importance of employee communication and aims to keep employees informed about its affairs through the use of briefing groups, Group newsletters and the publication of financial reports Regular meetings are held between management and other employees and discussion encouraged It is the Group's policy to give full consideration to applications for employment by disabled persons Appropriate adjustments are arranged for disabled persons, including retraining for alternative work of employees who become disabled, to promote their career development within the organisation

Remuneration policy
All employees of Ecclesiastical are entitled to a salary, benefits, pension and annual bonus The maximum bonus opportunity is based on differing levels of seniority and responsibility For example, there is an increased emphasis on performance-related pay for the Executive Directors through a higher bonus opportunity and participation in the Long-Term Incentive Plan This aligns the interests of Directors in the long term performance of the Group with those of the shareholders

DIRECTORS' REPORT

The Group's approach is to pay a fair market value to attract appropriate candidates to the role, taking into consideration their individual skills and experience and the ethos of the organisation Where it is thought necessary to compensate an individual's awards from previous employment, the Group will, as far as practicable, seek to match the expected value of such awards by granting awards that vest over a similar timeframe as that of the original awards There would be a proportionate reduction in the amount vesting, should the new awards not be subject to performance conditions as stretching as those on the awards foregone

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

Pension arrangements
A common retirement age of 65 applies to all members for pensionable service after 1 August 2011 and pension accrues on a Career Average Revalued Earnings basis Pension benefits for Executive Directors employed after June 1989 are subject to a scheme specific earnings cap and a cash allowance of 17% of salary above the cap is paid in lieu of pension contributions

Mark Hews is a member of the Group's defined contribution scheme which is operated by Aegon

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

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

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

The Chartered Institute of Internal Auditors (CIIA) issued guidance during 2013, and as a result of this guidance the Internal Audit and Compliance functions now have separate reporting lines The Compliance function is now clearly operating in the second line of defence More detail on how these functions operate can be found in the Group Audit Committee Report in the accounts of Ecclesiastical Insurance Office plc

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 is embedded into the culture of the Group and is accessible to all staff via the intranet

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

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

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 expenditures are appropriately authorised by management,
- Records are maintained which accurately and fairly reflect transactions,
- Any unauthorised acquisition, use or disposal of the Company'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

DIRECTORS' REPORT

- The Company is able to report its financial statements in compliance with International Financial Reporting Standards (IFRSs)

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 of Ecclesiastical Insurance Office plc 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 section in the Strategic Report in the accounts of Ecclesiasitcal Insurance Office plc, disclose the Group's principal risks and uncertainties, including exposures to insurance and financial risk

The Group has considerable financial resources financial investments of £950 3m, 97% of which are liquid (2012 financial investments of £925 4m, 96% liquid), cash and cash equivalents of £129 3m and no borrowings (2012 cash and cash equivalents of £133 6m and no borrowings) As a consequence, the Directors have a reasonable expectation that the Group is well placed to manage its business risks successfully and continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts

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

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

In accordance with Section 489 of the Companies Act 2006, a resolution proposing that Deloitte LLP be re-appointed as auditor of the Company will be put to the forthcoming AGM

Directors' responsibilities statement
The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

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

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

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

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

Non-adjusting events after the reporting period
Events subsequent to the reporting period are detailed in note 36 to the financial statements

Non-audit work
The Company determines non-audit services which are prohibited and those which are permitted ' subject to safeguards' The Group's aim is to identify appropriate service providers and ensure that any non-audit work is carried out by the most appropriate provider in a manner that affords fullest value for money The policy is shared with all external auditors of the Group Adherences to the policy and non-audit fees incurred are regularly reviewed by the Group Audit Committee of Ecclesiastical Insurance Office plc

By order of the Board

Mark Hews
Group Chief Executive, Ecclesiastical Insurance Group plc
24 April 2014

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of Ecclesiastical Insurance Group plc
We have audited the financial statements of Ecclesiastical Insurance Group plc for the year ended 31 December 2013 which comprise the Consolidated Statement of Profit or Loss, the Consolidated and Parent Statement of Comprehensive Income, the Consolidated and Parent Statement of Financial Position, the Consolidated and Parent Statement of Cash Flows, the Consolidated and Parent Statement of Changes in Equity and the related notes 1 to 36 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006

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

Respective responsibilities of Directors and Auditor
As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit If we become aware of any apparent material misstatements or inconsistencies

Opinion on financial statements
In our opinion

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2013 and of the Group's profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

M. McQueen

Mark McQueen ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
24 April 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2013

	Notes	2013 £000	2012 £000
Revenue			
Gross written premiums	5, 6	399,345	481,334
Outward reinsurance premiums	6	(131,274)	(157,843)
Net change in provision for unearned premiums	6	24,592	(12,846)
Net earned premiums		292,663	310,645
Fee and commission income		76,734	72,999
Other operating income		93	171
Net investment return	7	78,081	65,323
Total revenue		447,571	449,138
Expenses			
Claims and change in insurance liabilities	8	(234,789)	(256,057)
Reinsurance recoveries	8	36,545	41,447
Fees, commissions and other acquisition costs	9	(79,777)	(96,905)
Other operating and administrative expenses		(105,250)	(96,800)
Total operating expenses		(383,271)	(408,315)
Operating profit		64,300	40,823
Finance costs		(127)	(115)
Share of profit after tax of associate	13	9	87
Profit on acquisition of subsidiary	17	182	1,587
Profit on disposal of interest in subsidiary		435	480
Profit before tax	5	64,799	42,862
Tax expense	14	(5,728)	(5,468)
Profit for the year from continuing operations		59,071	37,394
Net loss attributable to discontinued operations	15	-	(5,737)
Profit for the year	10	59,071	31,657
Attributable to			
Equity holders of the Parent		50,847	21,789
Non-controlling interests		8,224	9,868
		59,071	31,657

On 15 May 2012, the Group disposed of its wholly-owned subsidiary, ACS (NZ) Limited The results of the disposed business are presented within discontinued operations in the prior year

CONSOLIDATED AND PARENT STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2013

	2013 Group £000	2013 Parent £000	2012 Group £000	2012 Parent £000
Profit for the year	59,071	1,569	31,657	1,526
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Fair value losses on property	(104)	-	(313)	-
Losses on retirement benefit plans	(2,245)	-	(1,103)	-
Attributable tax	631	-	444	-
	(1,718)	-	(972)	-
Items that may be reclassified subsequently to profit or loss				
Losses on currency translation differences	(10,071)	-	(3,784)	-
Net other comprehensive income	(11,789)	-	(4,756)	-
Total comprehensive income	47,282	1,569	26,901	1,526
Attributable to				
Equity holders of the Parent	39,058	1,569	17,033	1,526
Non-controlling interests	8,224	-	9,868	-
	47,282	1,569	26,901	1,526

CONSOLIDATED AND PARENT STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2013

	Attributable to equity holders of the Parent						Non-	
	Share capital	Equalisation reserve	Revaluation reserve	Translation reserve	Retained earnings	Total	controlling interests	Total equity
Group	£000	£000	£000	£000	£000	£000	£000	£000
At 1 January 2013	20,000	25,590	752	24,411	305,746	376,499	117,572	494,071
Profit for the year	-	-	-	-	*50,847*	*50,847*	*8,224*	*59,071*
Other net expense	-	-	*(52)*	*(10,071)*	*(1,666)*	*(11,789)*	-	*(11,789)*
Total comprehensive income	-	-	(52)	(10,071)	49,181	39,058	8,224	47,282
Acquisition of non-controlling interest	-	-	-	-	-	-	(1,232)	(1,232)
Capital contributions from minority interests	-	-	-	-	-	-	1,800	1,800
Dividends	-	-	-	-	-	-	(9,300)	(9,300)
Net charitable grant to ultimate parent	-	-	-	-	(3,070)	(3,070)	-	(3,070)
Reserve transfers	-	247	-	-	(247)	-	-	-
At 31 December 2013	20,000	25,837	700	14,340	351,610	412,487	117,064	529,551
At 1 January 2012	20,000	22,719	971	28,195	290,601	362,486	121,636	484,122
Profit for the year	-	-	-	-	*21,789*	*21,789*	*9,868*	*31,657*
Other net expense	-	-	*(219)*	*(3,784)*	*(753)*	*(4,756)*	-	*(4,756)*
Total comprehensive income	-	-	(219)	(3,784)	21,036	17,033	9,868	26,901
Acquisition of non-controlling interest	-	-	-	-	-	-	(8,071)	(8,071)
Capital contributions from minority interests	-	-	-	-	-	-	3,250	3,250
Dividends	-	-	-	-	-	-	(9,111)	(9,111)
Net charitable grant to ultimate parent	-	-	-	-	(3,020)	(3,020)	-	(3,020)
Reserve transfers	-	2,871	-	-	(2,871)	-	-	-
At 31 December 2012	20,000	25,590	752	24,411	305,746	376,499	117,572	494,071
Parent								
At 1 January 2013	20,000	-	-	-	6,739	26,739		
Total comprehensive income attributable to equity holders	-	-	-	-	1,569	1,569		
At 31 December 2013	20,000	-	-	-	8,308	28,308		
At 1 January 2012	20,000	-	-	-	5,292	25,292		
Total comprehensive income attributable to equity holders	-	-	-	-	1,526	1,526		
Group tax relief in excess of standard rate	-	-	-	-	(79)	(79)		
At 31 December 2012	20,000	-	-	-	6,739	26,739		

The equalisation reserve is not distributable and must be kept in compliance with the insurance companies' reserves regulations The revaluation reserve represents cumulative net fair value gains on owner-occupied property The translation reserve arises on consolidation of the Group's foreign operations

Retained earnings of the Group includes a specific non-distributable reserve of a subsidiary amounting to £4,200,000 (2012 £4,200,000)

CONSOLIDATED AND PARENT STATEMENT OF FINANCIAL POSITION

for the year ended 31 December 2013

	Notes	2013 Group £000	2013 Parent £000	2012 Group £000	2012 Parent £000
Assets					
Goodwill and other intangible assets	18	59,986	-	66,943	-
Deferred acquisition costs	19	34,757	-	34,626	-
Deferred tax assets	31	3,460	-	3,282	-
Pension assets	20	31,568	-	36,370	-
Investment in associate	13	390	-	501	-
Property, plant and equipment	21	8,062	-	9,251	-
Investment property	22	45,099	-	27,315	-
Financial investments	23	950,266	40,898	925,431	41,152
Reinsurers' share of contract liabilities	29	132,593	-	141,011	-
Current tax recoverable		135	-	316	-
Other assets	25	115,700	106	136,095	-
Cash and cash equivalents	26	129,334	2,715	133,615	928
Total assets		1,511,350	43,719	1,514,756	42,080
Equity					
Share capital	27	20,000	20,000	20,000	20,000
Retained earnings and other reserves		392,487	8,308	356,499	6,739
Equity attributable to equity holders of the Parent		412,487	28,308	376,499	26,739
Non-controlling interests	28	117,064	-	117,572	-
Total equity		529,551	28,308	494,071	26,739
Liabilities					
Insurance contract liabilities	29	848,267	-	878,691	-
Borrowings		1,637	15,258	1,812	15,252
Provisions for other liabilities	30	6,710	-	7,273	-
Retirement benefit obligations	20	11,744	-	14,810	-
Deferred tax liabilities	31	40,267	151	38,732	79
Current tax liabilities		2,837	-	922	-
Deferred income		14,282	-	14,835	-
Other liabilities	32	56,055	2	63,610	10
Total liabilities		981,799	15,411	1,020,685	15,341
Total equity and liabilities		1,511,350	43,719	1,514,756	42,080

The financial statements of Ecclesiastical Insurance Group plc, registered number 1718196, on pages 12 to 65 were approved and authorised for issue by the Board of Directors on 24 April 2014 and signed on its behalf by

W. M. Samuel

Will Samuel
Chairman

Mark Hews
Group Chief Executive

CONSOLIDATED AND PARENT STATEMENT OF CASH FLOWS

for the year ended 31 December 2013

	2013 Group £000	2013 Parent £000	2012 Group £000	2012 Parent £000
Profit before tax	64,799	1,535	42,862	1,489
Adjustments for				
Loss before tax on discontinued operations	-	-	(834)	-
Profit on acquisition of subsidiary	(182)	-	(1,587)	-
Depreciation of property, plant and equipment	2,081	-	2,279	-
Loss on disposal of property, plant and equipment	110	-	79	-
Amortisation and impairment of intangible assets	9,066	-	3,162	-
Loss on disposal of intangible assets	7	-	83	-
Share of profit of associate	(9)	-	(87)	-
Net fair value gains on financial instruments and investment property	(36,563)	(931)	(23,714)	(749)
Gain on disposal of interest in subsidiary	(435)	-	(462)	-
Dividend and interest income	(38,715)	(1,060)	(38,964)	(1,066)
Finance costs	127	177	115	331
Changes in operating assets and liabilities				
Net decrease in insurance contract liabilities	(8,689)	-	(23,201)	-
Net decrease in reinsurers' share of contract liabilities	5,275	-	71,872	-
Net (increase)/decrease in deferred acquisition costs	(1,075)	-	1,037	-
Net decrease/(increase) in other assets	15,382	(106)	97	728
Net (decrease)/increase in operating liabilities	(2,109)	98	(7,774)	(1,187)
Net increase/(decrease) in other liabilities	48	-	(878)	-
Cash generated/(used) by operations	9,118	(287)	24,085	(454)
Dividends received	10,099	1,061	10,043	1,366
Interest received	27,352	5	28,496	6
Interest paid	(127)	(177)	(115)	(331)
Tax (paid)/recovered	(1,291)	-	404	881
Net cash from operating activities	45,151	602	62,913	1,468
Cash flows from investing activities				
Purchases of property, plant and equipment	(1,102)	-	(1,642)	-
Proceeds from the sale of property, plant and equipment	55	-	51	-
Purchases of intangible assets	(2,237)	-	(1,269)	-
Disposal of businesses, net of cash transferred	-	-	(12,734)	-
Disposal of interest in subsidiary	2,235	-	3,712	-
Purchases of financial instruments and investment property	(269,766)	-	(256,467)	-
Sale of financial instruments and investment property	242,202	2,235	180,746	3,712
Net cash (used by)/from investing activities	(28,613)	2,235	(87,603)	3,712
Cash flows from financing activities				
Payment of finance lease liabilities	(405)	-	(633)	-
Proceeds from/(repayment of) other borrowings	-	7	-	(909)
Acquisition of non-controlling interests	(1,050)	(1,050)	(6,482)	(6,482)
Payment of group tax relief in excess of standard rate	-	-	-	223
Dividends paid to non-controlling interests of subsidiaries	(9,085)	-	(8,783)	-
Donations paid to ultimate parent undertaking	(8,000)	-	-	-
Net cash used by financing activities	(18,540)	(1,043)	(15,898)	(7,168)
Net (decrease)/increase in cash and cash equivalents	(2,002)	1,794	(40,588)	(1,988)
Cash and cash equivalents at beginning of year	133,615	928	174,114	2,920
Exchange (losses)/gains on cash and cash equivalents	(2,279)	(7)	89	(4)
Cash and cash equivalents at end of year	129,334	2,715	133,615	928

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

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

Basis of preparation
The Group's consolidated financial statements have been prepared using the following accounting policies, which are in accordance with IFRS applicable at 31 December 2013 issued by the International Accounting Standards Board and endorsed by the European Union (EU) The financial statements have been prepared on the historical cost basis, except for the revaluation of properties and certain financial instruments

In 2012 the company accounts were produced on a UKGAAP basis, taking advantage of the exemption from preparing and delivering group accounts under section 400 of the Companies Act 2006 The company has reverted to producing group accounts on an IFRS basis this year as it provides users of the accounts with a better understanding of the company and group's activities There have been minor presentational changes but the change in accounting framework has not resulted in any change in the measurement basis of the assets, liabilities and equity of the company

A review of the Group's business activities is provided within the Strategic Report. In addition, notes 3 and 4 to the financial statements disclose the Group's principal risks and uncertainties, including exposures to insurance and financial risk and the Group's objectives for managing capital The Group has considerable financial resources financial investments of £950 3m, 97% of which are liquid (2012 financial investments of £925 4m, 96% liquid), cash and cash equivalents of £129 3m and no bank borrowings (2012 cash and cash equivalents of £133 6m and no bank borrowings) As a consequence, the Directors have a reasonable expectation that the Group is well placed to manage its business risks successfully and continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts

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

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

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

New and revised Standards
In the current year the Group has adopted the following Standards and Amendments
- IAS 27 (Revised), *Separate Financial Statements,*
- IAS 28 (Revised), *Investments in Associates and Joint Ventures,*
- IFRS 10, *Consolidated Financial Statements,*
- IFRS 11, *Joint Arrangements,*
- IFRS 12, *Disclosures of Interests in Other Entities,*
- IFRS 13, *Fair Value Measurement,*
- Amendment to IAS 1 (Revised), *Presentation of Items of Other Comprehensive Income,*
- Amendment to IFRS 7, *Disclosures Offsetting Financial Assets and Financial Liabilities,*
- Amendments to IFRS 10, IFRS 11 and IFRS 12, *Transition Guidance,* and
- Annual Improvements to IFRSs 2009 - 2011 Cycle

IFRS 11 focuses on the rights and obligations of the parties to the arrangement rather than its legal form The adoption has resulted in Amlin Plus Limited, a company in which the Group has a 40% shareholding, being reclassified from a joint venture to an assoicate, with no impact on the measurement of the investment.

IFRS 12 is a new standard on disclosure requirements for interests in other entities The additional disclosures required are shown in note 28

IFRS 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements The adoption has had no material impact on the measurement of fair value of financial assets and financial liabilities in the Group, and the disclosures required are shown in note 4

The amendment to IAS 1 requires items of other comprehensive income to be grouped by those items that will be reclassified subsequently to profit or loss and those that will never be reclassified, along with their associated tax The amendments have been applied retrospectively and hence the presentation of items of other comprehensive income has been modified to reflect the changes The amendment also introduces new terminology, whose use is not mandatory, for the statement of comprehensive income and the income statement. As such, the 'income statement' has been renamed as the 'statement of profit or loss'

The amendment to IFRS 7 requires disclosure of the gross amounts of recognised financial assets and liabilities where they are offset and the net amount presented in the statement of financial position Disclosure of amounts offset within pension assets, other assets and other liablities are shown in notes 20, 25 and 32, respectively

The other Standards, Interpretation and Amendments adopted in the year have not had a significant impact on the financial statements

At the date of authorisation of these financial statements, the following Standard and Amendments which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU)

- IFRS 9 (Revised), *Financial Instruments,*
- IFRIC 21, *Levies,*

- Amendment to IAS 19 (Revised), *Defined Benefit Plans Employee Contributions*,
- Amendment to IAS 32, *Offsetting Financial Assets and Financial Liabilities*,
- Amendment to IAS 36, *Recoverable Amount Disclosures for Non-Financial Assets*,
- Amendment to IAS 39, *Novation of Derivatives and Continuation of Hedge Accounting*,
- Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised), *Investment Entities*,
- Annual Improvements to IFRSs 2010 - 2012 Cycle, and
- Annual Improvements to IFRSs 2011 - 2013 Cycle

On adoption of the amendment to IAS 19 (R) (effective for annual periods beginning on or after 1 July 2014), there will be a presentational change in the pension asset and retirement benefit obligations note The adoption of the other Standard, Interpretation and Amendments is not expected to significantly impact the Group

The Group has no transactions within the scope of other new or revised Standards or Interpretations which are effective in the year or in issue but not yet effective

Use of estimates
The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates

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

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

In the Parent statement of financial position subsidiaries are accounted for within financial investments at cost, in accordance with IAS 27 (Revised), *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 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 or 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

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

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

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

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

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

Premium income

General insurance business

Premiums are shown gross of commission paid to intermediaries and accounted for in the period in which the risk commences Estimates are included for premiums not notified by the year end

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 Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or inwards reinsurance business

Long-term business

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

Fee and commission income

Fee and commission income consists primarily of reinsurance commissions receivable in addition to 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 Reinsurance commissions receivable and other commission income are recognised on the trade date Income generated from insurance placements is recognised at the inception date of the cover

Fees charged for investment management services are recognised as revenue when the services are provided Initial fees which exceed the level of recurring fees and relate to the future provision of services are deferred and amortised over the anticipated period in which services will be provided Fees charged for investment management services for institutional and retail fund management are also recognised on this basis

Net investment return

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

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

Claims

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

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

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

Insurance contract liabilities

General insurance provisions

(i) Outstanding claims provisions

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

(ii) Provision for unearned premiums

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

(iii) Liability adequacy

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

Long-term business provisions

Under current IFRS requirements, insurance contract liabilities are measured using accounting policies consistent with those adopted previously Accounting for such contracts is determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005, and amended in December 2006

The long-term business provision is determined using methods and assumptions approved by the Directors based on advice from the Actuarial Function Holder Initially it is calculated to comply with the reporting requirements under the Prudential Sourcebook for Insurers This statutory solvency basis of valuation is then adjusted by eliminating or adjusting certain reserves advised under insurance companies' regulations and general contingency reserves This adjusted basis is referred to as the modified statutory solvency basis

Reinsurance

The Group assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business Premiums on reinsurance assumed are recognised as revenue in the same manner as direct business Outwards reinsurance premiums are accounted for in the same accounting period as the related premiums for the direct or inwards reinsurance business being reinsured The Group does not reinsure its long-term 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 settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets and liabilities of the acquired subsidiary 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 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 amortised over a useful life of between three and five years, using the straight-line method The amortisation 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 customer and distribution relationships, and are carried at cost at acquisition less accumulated amortisation after acquisition Amortisation is on a straight-line basis over the weighted average estimated useful life of intangible assets acquired The amortisation charge for the period is included in the statement of profit or loss within other operating and administrative expenses

Property, plant and equipment

Owner-occupied properties are stated at open market value and movements are taken to the revaluation reserve within equity, net of deferred tax When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings Where the market value of an individual property is below original cost, any revaluation movement arising during the year is recognised within net investment return in the statement of profit or loss Valuations are carried out at least every three years by external qualified surveyors All other items classed as property, plant and equipment within the statement of financial position are carried at historical cost less accumulated depreciation

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

Computer equipment	3 - 5 years
Motor vehicles	27% reducing balance or length of lease
Fixtures, fittings and office equipment	3 - 15 years

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

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

Investment property

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

Financial instruments

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

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

- Financial instruments designated as at fair value through profit or loss and those held for trading are subsequently carried at fair value Changes in fair value are recognised through profit or loss in the period in which they arise

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

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

Offset of financial assets and financial liabilities

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

Financial investments

The Group classifies its financial investments as either financial assets at fair value through profit or loss (designated as such or held for trading) or loans and receivables

Financial assets at fair value through profit or loss
Financial investments are classified into this category if they are managed, and their performance evaluated, on a fair value basis Purchases and sales of these investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the assets, at their fair value adjusted for transaction costs Financial investments within this category are classified as held for trading if they are derivatives or 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 There is no current intention to dispose of these investments

Loans and receivables
Loans and receivables, comprising mortgages and other loans, are recognised when cash is advanced to borrowers These are carried at amortised cost using the effective interest method To the extent that a loan is uncollectable, it is written off as impaired Subsequent recoveries are credited to profit or loss

Derivative financial instruments
Derivative financial instruments include financial instruments that derive their value from underlying equity instruments or foreign exchange rates 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 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 changes in the fair value recognised immediately in net investment return 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 on 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 on the statement of financial position within cash and cash equivalents

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

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

Insurance broking debtors and creditors
Where the Group acts as agent in placing the insurable risks of clients with insurers, debtors arising from such transactions are not included within 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 within other debtors, with the amount owing for onward transmission included in other creditors

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

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

Provisions and contingent liabilities
Provisions are recognised when the Group has a present legal or constructive obligation, as a result of past events, and it is probable that an outflow of resources, embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is more probable than not.

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, in accordance with the advice of qualified actuaries 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 past service cost, plus the present value of available refunds and reductions in future employer contributions to the plan

In accordance with IAS 19 (Revised), *Employee Benefits*, current and past service costs, gains and losses on curtailments 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 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 and any adjustment to the tax payable in respect of previous 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

Deferred tax assets and liabilities are not discounted

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

Charitable grant to ultimate parent undertaking

Payments are made via Gift Aid to the ultimate parent company, Allchurches Trust Limited, a registered charity The Group does not regard these payments as being expenses of the business and, as such, recognises them net of tax in equity in the period in which they are approved

2 Critical accounting estimates and judgements in applying accounting policies

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

(a) The ultimate liability arising from claims made under general business insurance contracts
The estimation of the ultimate liability arising from claims made under general business insurance contracts is a critical accounting estimate There is uncertainty as to the total number of claims made on each class of business, the amounts that such claims will be settled for and the timings of any payments There are various sources of 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, 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 29 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 29

(b) Estimate of future benefit payments arising from long-term insurance contracts
The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the Group

Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to risk. The Group bases these estimates on standard industry and national mortality tables that reflect recent historical mortality experience, with allowance also being made for expected future mortality improvements where prudent The estimated mortality rates profile provisions for forecast benefit payments net of forecast premium receipts

Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts These estimates are based on current market returns as well as expectations about future economic and financial developments

In addition to the best estimates of future deaths, inflation, investment returns and administration expenses, a margin for risk and uncertainty is added to these assumptions in calculating the liabilities of long-term insurance contracts The sensitivity of profit or loss to changes in the key assumptions is presented in note 29

(c) 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 costs inflation Any changes in these assumptions will impact profit or loss and may affect planned funding of the pension plans 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

In determining the appropriate discount rate, the Group considered interest rates of 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 The expected rate of medical cost inflation has been determined by comparing the historical relationship of the actual medical cost increases with the rate of inflation 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

(d) Goodwill
Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses An impairment loss is recognised to the extent that the carrying value of goodwill exceeds the recoverable amount The recoverable amount is determined by estimating the value in use of the business units to which the goodwill has been allocated The value in use calculation requires the Group to make an estimation of the future cash flows expected to arise from the business unit and a suitable discount rate to calculate present value Details of the carrying value of goodwill at the balance sheet date are shown in note 18

(e) Carrying value of tax liabilities
Calculating tax liabilities requires management to make judgements in respect of the tax payable for current and prior periods based on the interpretation of applicable tax legislation In particular, the material deferred tax liability held by the Group primarily relates to future tax due on unrealised gains in respect to equities held prior to 2002 Gains on these assets are only recognised for tax purposes when sold and an estimate has to be made of the tax rate that would be applicable at the point of sale in order to determine the tax liability relating to the gain, applying tax rates substantively enacted at the balance sheet date

3 Insurance risk

Through its general and life insurance operations, the Group is exposed to a number of risks, as summarised in the Risk Management section of the Strategic Report 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 (risk selection and required premium), Claims Reserving Risk (the risk that the cost to settle claims exceeds the carrying amount of the related insurance liabilities) and Reinsurance Risk (the risk of failing to access and manage reinsurance capacity at a reasonable price)

(a) Risk mitigation

Experience shows that the larger and more diversified the portfolio of insurance contracts, the smaller the relative variability about 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 underwriting exposure is protected through the use of a comprehensive programme of reinsurance and proactive claims handling Net retention limits are in place and the Group arranges catastrophe reinsurance cover to protect against aggregations of losses

(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 Group also underwrites a small portfolio of motor policies, but this class is in run-off following the decision in November 2012 to focus on the principal classes The accident class of business covers injury, death or incapacity as a result of an unforeseen event The Group's whole-of-life insurance policies support funeral planning products

With reference to written premiums, the concentration of insurance risk for the financial year before and after reinsurance by territory in relation to the type of risk accepted is summarised below

Group		General insurance				Life insurance	
		Property	Liability	Motor	Accident	Funeral plans	Total
2013		£000	£000	£000	£000	£000	£000
Territory							
United Kingdom	Gross	195,720	64,578	14,467	17,380	6,753	298,898
	Net	105,832	58,753	13,138	16,519	6,753	200,995
Australia	Gross	27,126	16,477	861	1,205	-	45,669
	Net	10,784	13,869	761	1,163	-	26,577
Canada	Gross	29,521	11,651	-	-	-	41,172
	Net	19,835	10,772	-	-	-	30,607
Ireland	Gross	7,876	5,691	1	38	-	13,606
	Net	4,610	5,241	1	40	-	9,892
Total	Gross	260,243	98,397	15,329	18,623	6,753	399,345
	Net	141,061	88,635	13,900	17,722	6,753	268,071
2012							
Territory							
United Kingdom	Gross	210,913	72,705	40,937	20,404	20,208	365,167
	Net	111,748	68,629	38,261	19,308	20,208	258,154
Australia	Gross	41,483	19,585	2,658	1,400	-	65,126
	Net	11,495	13,915	710	1,319	-	27,439
Canada	Gross	27,122	9,873	-	-	-	36,995
	Net	18,748	8,921	-	-	-	27,669
Ireland	Gross	8,032	5,762	7	245	-	14,046
	Net	4,704	5,296	7	222	-	10,229
Total	Gross	287,550	107,925	43,602	22,049	20,208	481,334
	Net	146,695	96,761	38,978	20,849	20,208	323,491

(c) General insurance risks

Property classes

Property cover mainly compensates the policyholder for damage suffered to their properties 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, including the property element of motor 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, subsidence, accidental damage to insured vehicles and theft. Subsidence claims are difficult to predict because the damage is often not apparent for some time Changes in soil moisture conditions can give rise to changes in claim volumes over time The ultimate settlements can be small or large with a greater risk of a settled claim being re-opened at a later date

The number of claims made can be affected by weather events, changes in climate and crime rates Climate change may give rise to more frequent and severe 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 then 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

The maximum claim payable is limited to the sum insured These contracts are underwritten on a reinstatement basis or repair and renovation basis as appropriate Costs of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level 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 weather or recession-related events

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

Liability classes

Liability insurance contracts protect policyholders from the liability to compensate injured employees (employers' liability) and third parties (public liability) and motor injuries

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, where uncertainty is higher 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, the courts' move to periodic payments awards and the increase in the number of cases that have been latent for a long period of time

The severity of bodily injury claims is highly influenced by the value of loss of earnings and the future cost of care The settlement value of claims arising under public and employers' liability and the liability element of motor contracts is particularly difficult to predict. There is uncertainty as to whether any payments will be made and, if they are, the amount and timing of the payments 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 develop 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 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 29 presents the development of the estimate of ultimate claim cost for public and employers' liability claims occurring in a given year This gives an indication of the accuracy of the estimation technique for incurred claims

(d) Life insurance risks

The Group provides whole-of-life insurance policies to support funeral planning products, for most of which the future benefits are linked to inflation and backed by index-linked assets The risk that actual claims payments exceed the carrying amount of the insurance liabilities may occur if the timing of claims is different from assumed

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 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 investment risk within this has been largely mitigated by holding fixed interest assets of a similar term to the expected liabilities profile The mortality risk is retained by the Group and directly impacts shareholders' equity

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 financial risks that the Group is exposed to Financial risk exposure fell in 2013 due to the sale of around £50m overseas equities which we have reinvested in UK fixed income debt securities The Group's management and measurement of financial risks is informed by either stochastic modelling or stress testing techniques

(a) Categories of financial instruments

	Financial assets					
Group	Designated at fair value £000	Held for trading £000	Loans and receivables* £000	Financial liabilities** £000	Other assets and liabilities £000	Total £000
At 31 December 2013						
Financial investments	942,197	158	7,911	-	-	950,266
Other assets	-	-	112,129	-	3,571	115,700
Cash and cash equivalents	-	-	129,334	-	-	129,334
Borrowings	-	-	-	-	(1,637)	(1,637)
Other liabilities	-	-	-	(49,640)	(6,415)	(56,055)
Net other	-	-	-	-	(608,057)	(608,057)
Total	942,197	158	249,374	(49,640)	(612,538)	529,551
At 31 December 2012						
Financial investments	914,107	1,846	9,478	-	-	925,431
Other assets	-	-	132,520	-	3,575	136,095
Cash and cash equivalents	-	-	133,615	-	-	133,615
Borrowings	-	-	-	-	(1,812)	(1,812)
Other liabilities	-	-	-	(57,195)	(6,415)	(63,610)
Net other	-	-	-	-	(635,648)	(635,648)
Total	914,107	1,846	275,613	(57,195)	(640,300)	494,071
Parent						
At 31 December 2013						
Financial investments	3,813	-	-	-	37,085	40,898
Other assets	-	-	106	-	-	106
Cash and cash equivalents	-	-	2,715	-	-	2,715
Borrowings	-	-	-	(15,258)	-	(15,258)
Other liabilities	-	-	-	(2)	-	(2)
Net other	-	-	-	-	(151)	(151)
Total	3,813	-	2,821	(15,260)	36,934	28,308
At 31 December 2012						
Financial investments	3,317	-	-	-	37,835	41,152
Cash and cash equivalents	-	-	928	-	-	928
Borrowings	-	-	-	(15,252)	-	(15,252)
Other liabilities	-	-	-	(10)	-	(10)
Net other	-	-	-	-	(79)	(79)
Total	3,317	-	928	(15,262)	37,756	26,739

* Cash and cash equivalents have been presented with loans and receivables

** Financial liabilities are held at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS

4 Financial risk and capital management (continued)

(b) Fair value hierarchy

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

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

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

Level 3 fair values measured using inputs for the asset or liability that are not based on observable market data (unobservable inputs) This category includes unlisted debt and equities, including investments in venture capital, and suspended securities Where a look-through valuation approach is applied, underlying net asset values are sourced from the investee 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 2013				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	276,660	270	23,204	300,134
Debt securities	636,330	5,416	317	642,063
Derivatives	-	158	-	158
Total financial assets at fair value through profit or loss	912,990	5,844	23,521	942,355
At 31 December 2012				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	263,968	50	21,880	285,898
Debt securities	619,557	2,476	6,176	628,209
Derivatives	-	1,846	-	1,846
Total financial assets at fair value through profit or loss	883,525	4,372	28,056	915,953
Parent				
At 31 December 2013				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	-	-	3,813	3,813
Total financial assets at fair value through profit or loss	-	-	3,813	3,813
At 31 December 2012				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	-	-	3,317	3,317
Total financial assets at fair value through profit or loss	-	-	3,317	3,317

NOTES TO THE FINANCIAL STATEMENTS

4 Financial risk and capital management (continued)

Fair value measurements based on level 3

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

	Financial assets at fair value through profit and loss		
Group	Equity securities £000	Debt securities £000	Total £000
At 31 December 2013			
Opening balance	21,880	6,176	28,056
Total gains/(losses) recognised in profit or loss	1,324	(5,782)	(4,458)
Disposal proceeds	-	(77)	(77)
Closing balance	23,204	317	23,521
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	1,324	(5,782)	(4,458)
At 31 December 2012			
Opening balance	20,273	226	20,499
Total gains/(losses) recognised in profit or loss	1,607	(5,179)	(3,572)
Purchases	-	11,130	11,130
Disposal proceeds	-	(1)	(1)
Closing balance	21,880	6,176	28,056
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	1,607	(5,179)	(3,572)
Parent			
At 31 December 2013			
Opening balance	3,317	-	3,317
Total gains recognised in profit or loss	496	-	496
Closing balance	3,813	-	3,813
Total gains for the period included in profit or loss for assets held at the end of the reporting period	496	-	496
At 31 December 2012			
Opening balance	3,048	-	3,048
Total gains recognised in profit or loss	269	-	269
Closing balance	3,317	-	3,317
Total gains for the period included in profit or loss for assets held at the end of the reporting period	269	-	269

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

NOTES TO THE FINANCIAL STATEMENTS

4 Financial risk and capital management (continued)

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

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

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

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 and interest rates corresponding to the maturity of the contract. Over-the-counter equity or index options and futures are valued by reference to observable index prices

Unlisted equity securities (Level 3)

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

The valuation is most sensitive to the level of underlying net assets, the euro exchange rate, the price-to-book ratio chosen and an illiquidity discount applied to the valuation to account for the risks associated with holding the asset If the price-to-book ratio and illiquidity discount applied changed by +/- 10% the value of unlisted equity securities could move by +/- £3m

The increase in value during the year is the result of an increase in underlying net assets, the movement in the euro exchange rate and an increase in the price-to-book ratio from the previous year end

Unlisted debt (Level 3)

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

4 Financial risk and capital management (continued)

(c) Interest rate risk

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

Interest rate risk concentration is reduced by adopting asset-liability duration matching principles where appropriate Excluding assets held to back the long-term business, the average duration of the Group's fixed income portfolio is two years (2012 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 29 (a) part (iv)

For the Group's long-term insurance funeral plan business, benefits payable to policyholders are independent of the returns generated by interest-bearing assets Therefore the interest rate risk on the invested assets supporting these liabilities is borne by the Group This risk can be mitigated by purchasing fixed interest investments with durations that precisely match the profile of the liabilities For funeral plan policies, benefits are linked to the Retail Prices Index (RPI) Assets backing these liabilities are also linked to the RPI, and include index-linked gilts and corporate bonds For practical purposes it is not possible to exactly match the durations due to the uncertain profile of liabilities (e g mortality risk) and the availability of suitable assets, therefore some interest rate risk will persist The Group monitors its exposure by comparing projected cash flows for these assets and liabilities and making appropriate adjustments to its investment portfolio

The table below summarises the maturities of 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 2013				
Assets				
Debt securities	1,104	27,024	73,075	101,203
Cash and cash equivalents	2,214	-	-	2,214
	3,318	27,024	73,075	103,417
Liabilities				
Long-term business provision	6,125	22,200	64,121	92,446
At 31 December 2012				
Assets				
Debt securities	8,498	19,218	74,584	102,300
Cash and cash equivalents	441	-	-	441
	8,939	19,218	74,584	102,741
Liabilities				
Long-term business provision	5,951	21,985	65,020	92,956

Group financial investments with variable interest rates, including cash and cash equivalents, insurance instalment receivables and mortgage loans are subject to cash flow interest rate risk This risk is not significant to the Group

NOTES TO THE FINANCIAL STATEMENTS

4 Financial risk and capital management (continued)

(d) Credit risk

The Group has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due Areas where the Group is exposed to credit risk are

- reinsurers' share of insurance liabilities (excluding provision for unearned premiums) and amounts due from reinsurers in respect of claims already paid,

- deposits held with banks,

- amounts due from insurance intermediaries and policyholders, and

- counterparty default on loans and debt securities

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

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 of Ecclesiastical Insurance Office plc assesses, monitors and approves the creditworthiness of all reinsurers, reviewing relevant credit ratings provided by the recognised credit rating agencies, as well as other publicly available data and market information The Committee also monitors the balances outstanding from reinsurers and maintains an approved list of reinsurers

There has been no significant change in the recoverability of the Group's reinsurance balances during the year with all reinsurers on the 2013 reinsurance programme having a minimum rating of 'A-' from Standard & Poor's or an equivalent agency at the time of purchase, with the exception of MAPFRE RE whose rating was adversely impacted by the sovereign rating of Spain However, MAPFRE RE was upgraded by Standard & Poor's to 'A-' with a stable outlook in February 2014

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

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

Collateral is held over loans secured by mortgages 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	2013 £000	2012 £000
UK	463,879	428,760
Australia	93,283	108,761
Canada	58,629	61,113
Europe	26,272	23,773
Other	-	5,802
Total	642,063	628,209

(e) 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 29 The Group has robust processes in place to manage liquidity risk and has available cash balances, other readily marketable assets and access to funding in case of exceptional need This is not considered to be a significant risk to the Group

Non-derivative financial liabilities consist of finance leases, which are not material to the Group, and other liabilities for which a maturity analysis is included in note 32

(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 from time to time

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 foreign operations create two sources of foreign currency risk

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

	2013			2012	
	Group	Parent		Group	Parent
	£000	£000		£000	£000
Aus $	43,053	-	Aus $	54,459	-
Can $	33,044	-	Can $	36,651	-
Euro	17,029	4,200	Euro	31,410	3,317
US $	1,479	-	Hong Kong $	8,180	-
Japanese Yen	1,130	-	Singapore $	7,207	-

(g) Equity price risk
The Group is exposed to equity price risk because of financial investments held by the Group and 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

	2013			2012	
	Group	Parent		Group	Parent
	£000	£000		£000	£000
UK	273,650	-	UK	236,977	-
Europe	23,207	3,813	Europe	24,092	3,317
Canada	1,909	-	Hong Kong	8,032	-
US	979	-	Singapore	6,128	-
Other	389	-	Other	10,669	-
Total	300,134	3,813	Total	285,898	3,317

(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, is shown in the following table

Group		Potential increase/ (decrease) in profit		Potential increase/ (decrease) in other equity reserves	
Variable	Change in variable	2013 £000	2012 £000	2013 £000	2012 £000
Interest rate risk	-100 basis points	(254)	1,725	(121)	(24)
	+100 basis points	(4,769)	(4,214)	131	17
Currency risk	-5%	981	2,324	3,513	4,419
	+5%	(932)	(2,208)	(3,337)	(4,198)
Equity price risk	+/- 5%	11,518	10,793	-	-

Parent		Potential increase/ (decrease) in profit		Potential increase/ (decrease) in other equity reserves	
Variable	Change in variable	2013 £000	2012 £000	2013 £000	2012 £000
Currency risk	-5%	170	132	-	-
	+5%	(161)	(125)	-	-
Equity price risk	+/- 5%	146	125	-	-

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 include

- to comply with the regulators' capital requirements of the markets in which the Group operates, and
- to 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 regulatory 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), and submit PRA returns detailing levels of regulatory capital held Regulatory capital should be in excess of the higher of two amounts The first is an amount which is calculated by applying fixed percentages to premiums and claims (general insurance business) or by applying fixed percentages to insurance liabilities and applying stress testing (long-term business) The second is an economic capital assessment by the regulated entity, which the PRA reviews and may amend by issuing Individual Capital Guidance The Group sets internal capital standards above the PRA's minimum requirement. For overseas business the relevant capital requirement is the minimum requirement under the local regulatory regime Both the Group and the regulated entities within it have complied with all externally imposed capital requirements throughout the current and prior year

Regulated subsidiaries are restricted in the amount of cash dividends they transfer to the parent entity, in order for them to meet their individual minimum capital requirements The Group's total available capital resources are disclosed in note 29 (b)

NOTES TO THE FINANCIAL STATEMENTS

5 Segment information

(a) Operating segments

The Group segments its business activities on the basis of differences in the products and services offered and, for general insurance, the underwriting territory This reflects the management and internal Group reporting structure Group activities that are not reportable operating segments on the basis of size are included within an 'Other activities' category A change has been made to segments during 2013 as follows

- The 'Broking' segment has been renamed 'Broking and Advisory' and includes Ecclesiastical Financial Advisory Services Limited and Ecclesiastical Services Limited, which had previously been included in 'Other activities'

The prior period has been restated to the revised basis

The activities of each operating segment are described below

- General business

United Kingdom

The Group's principal general insurance business operation is in the UK, where it operates under the Ecclesiastical and Ansvar brands

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.

Ireland

The Group operates an Ecclesiastical branch in the Republic of Ireland underwriting general business across the whole of Ireland

Central operations

This includes the Group's internal reinsurance function, corporate underwriting costs, 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 Ecclesiastical Investment Management Limited

- Broking and Advisory

The Group provides insurance broking through South Essex Insurance Brokers Limited and Lycetts Holdings Limited and advisory services through Ecclesiastical Financial Advisory Services Limited and Ecclesiastical Services Limited

- Life business

Ecclesiastical Life Limited provides long-term insurance policies to support funeral planning products

- Other activities

This includes the return on Parent company investment holdings and corporate costs relating to acquisition and disposal 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

NOTES TO THE FINANCIAL STATEMENTS

5 Segment ınformatıon (contınued)

Segment revenue

The Group uses gross wrıtten premıums as the measure for turnover of the general and lıfe ınsurance busıness segments Turnover of the non-ınsurance segments comprıses fees and commıssıons earned ın relatıon to servıces provıded by the Group to thırd partıes Segment revenues do not ınclude net ınvestment return or general busıness fee and commıssıon ıncome, whıch are reported wıthın revenue ın the consolıdated statement of profıt or loss

Contınuıng operatıons	2013 Gross wrıtten premıums £000	2013 Non-ınsurance servıces £000	2013 Total £000	2012 Gross wrıtten premıums £000	2012 Non-ınsurance servıces £000	2012 Total £000
General busıness						
Unıted Kıngdom	291,338	-	291,338	336,579	-	336,579
Australıa	45,669	-	45,669	65,126	-	65,126
Canada	41,172	-	41,172	36,995	-	36,995
Ireland	13,606	-	13,606	14,046	-	14,046
Central operatıons	807	-	807	8,380	-	8,380
Total	392,592	-	392,592	461,126	-	461,126
Lıfe busıness	6,753	-	6,753	20,208	-	20,208
Investment management	-	10,535	10,535	-	8,396	8,396
Brokıng and Advısory	-	26,771	26,771	-	27,491	27,491
Group revenue from contınuıng operatıons	399,345	37,306	436,651	481,334	35,887	517,221

Group revenues are not materıally concentrated on any sıngle external customer

Segment result

General busıness segment results comprıse the ınsurance underwrıtıng profıt or loss, ınvestment actıvıtıes and other expenses of each underwrıtıng terrıtory The Group uses the ındustry standard net combıned operatıng ratıo (COR) as a measure of underwrıtıng effıcıency The COR expresses the total of net claıms costs, commıssıon and underwrıtıng expenses as a percentage of net earned premıums

The lıfe busıness segment result comprıses the profıt or loss on ınsurance contracts (ıncludıng return on assets backıng lıabılıtıes ın the long-term fund), shareholder ınvestment return and other expenses

All other segment results consıst of the profıt or loss before tax measured ın accordance wıth IFRS

2013	*Combıned operatıng ratıo*	Insurance £000	Investments £000	Other £000	Total £000
General busıness					
Unıted Kıngdom	95 3%	9,815	59,726	(114)	69,427
Australıa	114 8%	(4,182)	3,913	(2)	(271)
Canada	104 0%	(1,142)	1,459	-	317
Ireland	186 4%	(9,068)	385	-	(8,683)
Central operatıons		(3,666)	-	-	(3,666)
	102 9%	(8,243)	65,483	(116)	57,124
Lıfe busıness		367	6,627	(5)	6,989
Investment management		-	1,728	-	1,728
Brokıng and Advısory		-	-	(1,502)	(1,502)
Other actıvıtıes		-	1,332	(872)	460
Profıt before tax		(7,876)	75,170	(2,495)	64,799

NOTES TO THE FINANCIAL STATEMENTS

5 Segment information (continued)

2012 *Continuing operations*	*Combined operating ratio*	Insurance £000	Investments £000	Other £000	Total £000
General business					
United Kingdom	105 5%	(12,333)	41,255	(113)	28,809
Australia	122 1%	(5,194)	8,663	-	3,469
Canada	101 1%	(297)	1,257	(2)	958
Ireland	162 8%	(6,213)	1,130	-	(5,083)
Central operations		(559)	12	-	(547)
	108 5%	(24,596)	52,317	(115)	27,606
Life business		5,947	3,113	(5)	9,055
Investment management		-	1,194	-	1,194
Broking and Advisory		-	-	4,578	4,578
Other activities		-	165	264	429
Profit before tax		(18,649)	56,789	4,722	42,862

(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

	2013		2012	
	Gross written premiums £000	Non-current assets £000	Gross written premiums £000	Non-current assets £000
United Kingdom	298,898	110,402	365,167	118,332
Australia	45,669	918	65,126	1,453
Canada	41,172	1,338	36,995	734
Ireland	13,606	74	14,046	241
	399,345	112,732	481,334	120,760

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 2013			
Gross written premiums	392,592	6,753	399,345
Outward reinsurance premiums	(131,274)	-	(131,274)
Net written premiums	261,318	6,753	268,071
Change in the gross provision for unearned premiums	27,205	-	27,205
Change in the provision for unearned premiums, reinsurers' share	(2,613)	-	(2,613)
Change in the net provision for unearned premiums	24,592	-	24,592
Earned premiums, net of reinsurance	285,910	6,753	292,663
For the year ended 31 December 2012			
Gross written premiums	461,126	20,208	481,334
Outward reinsurance premiums	(157,843)	-	(157,843)
Net written premiums	303,283	20,208	323,491
Change in the gross provision for unearned premiums	(404)	-	(404)
Change in the provision for unearned premiums, reinsurers' share	(12,442)	-	(12,442)
Change in the net provision for unearned premiums	(12,846)	-	(12,846)
Earned premiums, net of reinsurance	290,437	20,208	310,645

7 Net investment return

	2013 £000	2012 £000
Income from financial assets at fair value through profit or loss		
- equity income	10,340	9,519
- debt income	25,250	24,450
Income from financial assets not at fair value through profit or loss		
- interest income on mortgages and other loans	414	477
- cash and cash equivalents income, net of exchange movements	1,743	3,356
- other income received	1,754	2,011
Other income		
- rental income	2,017	1,802
Investment income	41,518	41,615
Fair value movements on financial instruments at fair value through profit or loss	35,220	24,893
Fair value movements on investment property	1,343	(1,179)
Net investment return	78,081	65,329
Less discontinued operations	-	(6)
Net investment return of continuing operations	78,081	65,323

Included within cash and cash equivalents income are exchange gains of £843,000 (2012 £1,865,000 gains)

Included within fair value movements on financial instruments at fair value through profit or loss are £7,813,000 losses (2012 £9,919,000 losses) in respect of derivatives classified as held for trading

8 Claims and change in insurance liabilities and reinsurance recoveries

Continuing operations	General business £000	Long-term business £000	Total £000
For the year ended 31 December 2013			
Gross claims paid	206,963	7,854	214,817
Gross change in the provision for claims	20,526	(44)	20,482
Gross change in long-term business provisions	-	(510)	(510)
Claims and change in insurance liabilities	227,489	7,300	234,789
Reinsurers' share of claims paid	(38,888)	-	(38,888)
Reinsurers' share of change in the provision for claims	2,343	-	2,343
Reinsurance recoveries	(36,545)	-	(36,545)
Claims and change in insurance liabilities, net of reinsurance	190,944	7,300	198,244
For the year ended 31 December 2012			
Gross claims paid	244,444	6,930	251,374
Gross change in the provision for claims	(6,559)	-	(6,559)
Gross change in long-term business provisions	-	11,242	11,242
Claims and change in insurance liabilities	237,885	18,172	256,057
Reinsurers' share of claims paid	(75,228)	-	(75,228)
Reinsurers' share of change in the provision for claims	33,781	-	33,781
Reinsurance recoveries	(41,447)	-	(41,447)
Claims and change in insurance liabilities, net of reinsurance	196,438	18,172	214,610

Discontinued operations

Prior year discontinued general business gross claims and change in insurance liabilities, and related reinsurance recoveries are disclosed in note 15

9 Fees, commissions and other acquisition costs

	2013 £000	2012 £000
Fees paid	404	484
Commission paid	62,236	69,887
Change in deferred acquisition costs	(1,075)	1,034
Other acquisition costs	18,212	25,500
Fees, commissions and other acquisition costs	79,777	96,905

10 Profit for the year

	2013 £000	2012 £000
Profit for the year has been arrived at after (crediting)/charging		
Net foreign exchange gains	(843)	(1,865)
Depreciation of property, plant and equipment	2,081	2,279
Loss on disposal of property, plant and equipment	110	79
Amortisation of intangible assets	3,745	3,154
(Increase)/decrease in fair value of investment property	(1,343)	1,179
Employee benefits expense	74,968	72,356
Operating lease rentals	4,044	4,127

11 Auditor's remuneration

	2013 £000	2012 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	14	7
Fees payable to the Company's auditor and its associates for other services		
- The audit of the Company's subsidiaries	364	374
Total audit fees	378	381
- Audit-related assurance services	94	92
- Taxation compliance services	-	18
- Taxation advisory services	9	8
Total non-audit fees	103	118
Total auditor's remuneration	481	499

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

Fees payable to the Company's auditor in respect of the audit of the Group's associated pension plans amounted to £15,000 (2012 £15,000)

12 Employee information

The average monthly number of employees of the Group, including Executive Directors, during the year by geographical location was

	2013 General business No	2013 Long-term business No	2013 Other No	2012 General business No	2012 Long-term business No	2012 Other No
United Kingdom	732	9	313	758	10	324
Australia	110	-	-	132	-	-
Canada	60	-	-	59	-	-
Ireland	22	-	-	33	-	-
	924	9	313	982	10	324

	2013 £000	2012 £000
Wages and salaries	64,313	61,872
Social security costs	5,217	4,739
Pension costs - defined contribution plans	2,694	2,849
Pension costs - defined benefit plans	1,961	2,136
Other post-employment benefits	783	760
	74,968	72,356

The above figures include termination benefits of £4,270,000 (2012 £2,223,000)

The remuneration of the Directors (including Non-Executive Directors), who are the key management personnel of the Group, is set out in aggregate below

	2013 £000	2012 £000
Salaries and other short-term employee benefits	1,605	1,340
Long-term cash incentive	25	-
Post-employment benefits	75	45
	1,705	1,385

Post-employment benefits includes £67,000 (2012 £38,000) in respect of contributions to a defined contribution scheme

One Director who was employed by Ecclesiastical Insurance Office plc was a member of the Group's defined benefit pension scheme during the year (2012 one Director) Two Directors (2012 one) were members of the Group's defined contribution scheme during the year

		2013 £000	2012 £000
Highest paid director	- emoluments	519	390
	- money purchase pension contributions	48	-
Chairman's fees		68	68

13 Associate

The Group has a 40% shareholding in its associate Amlin Plus Limited, an unlisted insurance services company incorporated in the United Kingdom The Group's interest in Amlin Plus Limited is as follows

	2013 £000	2012 £000
At 1 January	501	553
Share of profit after tax for the year	9	87
Dividend paid	(120)	(139)
At 31 December	390	501
Group's share of		
Revenue	513	585
Profit after tax for the year	9	87
Share of assets	1,167	1,598
Share of liabilities	(777)	(1,097)
Share of net assets of associate	390	501

The adoption of IFRS 11, *Joint Arrangements*, has resulted in the investment being reclassified from a joint venture to an associate

14 Tax expense

		2013 £000	2012 £000
Current tax	- current year	6,001	1,905
	- prior years	(1,696)	(798)
Deferred tax	- temporary differences	6,568	7,553
	- prior years	(253)	-
	- reduction in tax rate	(4,892)	(2,876)
Total tax expense		5,728	5,784
Less tax expense of discontinued operations		-	(316)
Tax expense of continuing operations		5,728	5,468

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

	2013 £000	2012 £000
Profit before tax (continuing operations)	64,799	42,862
Loss before tax (discontinued operations)	-	(6,053)
Total pre-tax profit	64,799	36,809
Tax calculated at the UK standard rate of tax of 23 25% (2012 24 5%)	15,066	9,018
Factors affecting charge for the year		
Expenses not deductible for tax purposes	405	5,032
Non-taxable income	(2,236)	(4,024)
Life insurance and other tax paid at non-standard rates	(389)	(1,799)
(Utilisation)/generation of tax losses for which no deferred tax asset has been recognised	(277)	1,248
Impact of reduction in deferred tax rate	(4,892)	(2,876)
Other items	-	(17)
Adjustments to tax charge in respect of prior periods	(1,949)	(798)
Total tax expense	5,728	5,784

A deferred tax credit on fair value movements on owner-occupied property of £52,000 (2012 £94,000 credit) and tax relief on charitable grants of £930,000 (2012 £980,000) are taken directly to equity

A change in the UK standard rate of corporation tax from 24% to 23% became effective from 1 April 2013 Where appropriate, current tax has been provided at the blended rate of 23 25% Further reductions in the rate of corporation tax to 21% from April 2014, and to 20% from April 2015, were substantively enacted on 2 July 2013 Deferred tax has been provided at the rate of 20%

15 Prior year discontinued operations

During the prior year, the Group disposed of its wholly-owned subsidiary, ACS (NZ) Limited, transferring its holdings of Ordinary shares in ACS (NZ) Limited to the Canterbury Earthquake Church and Heritage Trust, an independent trust constituted in New Zealand, with objectives similar to those of the Group The loss on disposal includes a contribution made to the Trust of NZ$10 0m

The disposal was effected in order to reduce the insurance and financial risks associated with the run-off of claims in relation to the series of earthquakes in Canterbury, New Zealand

The results and cash flows of the discontinued operations, which have been included in the consolidated statement of profit or loss and consolidated statement of cash flows, respectively, were as follows

	Period to 15 May 2012 £000
Total revenue	246
Claims and change in insurance liabilities	(41,226)
Reinsurance recoveries	40,751
Other expenses	(605)
Total expenses	(1,080)
Loss before tax	(834)
Loss on disposal, net of selling costs	(5,219)
Attributable tax	316
Net loss attributable to discontinued operations	(5,737)
Net cash used by operating activities	(2,466)
Net cash from financing activities*	5,863

* Net cash from financing activities relates to loans provided by Group companies which are eliminated on consolidation The full balance was repaid prior to the 2012 year end

16 Appropriations

	2013 £000	2012 £000
Charitable grants		
Gross charitable grants to the ultimate parent company, Allchurches Trust Limited	4,000	4,000
Tax relief	(930)	(980)
Net appropriation for the year	3,070	3,020

17 Acquisition of additional shares in subsidiary

At 1 January 2013 the Group owned 72 6% of Lycetts Holding Limited (hereafter referred to as Lycetts), a holding company of a group whose primary activity is insurance broking business Through the course of 2013 the Group acquired a further 2 4% of the shares, increasing the equity interest to 75 0%, for a cash consideration of £1,050,000 paid to minority interest shareholders, generating a gain on the acquisition of £182,000 The purpose of the business combination is to diversify the portfolio of the Group and benefit from Lycetts' expertise in rural, specialist commercial and bloodstock lines of business It is expected that the remaining shares will be acquired in 2014

18 Goodwill and other intangible assets

Group	Goodwill £000	Computer software £000	Other intangible assets £000	Total £000
Cost				
At 1 January 2013	51,911	21,792	15,561	89,264
Additions	-	2,237	-	2,237
Disposals	-	(1,206)	-	(1,206)
Exchange differences	-	(516)	-	(516)
At 31 December 2013	51,911	22,307	15,561	89,779
Accumulated impairment losses and amortisation				
At 1 January 2013	8	17,736	4,577	22,321
Amortisation charge for the year	-	2,153	1,592	3,745
Impairment losses for the year	5,321	-	-	5,321
Disposals	-	(1,198)	-	(1,198)
Exchange differences	-	(396)	-	(396)
At 31 December 2013	5,329	18,295	6,169	29,793
Net book value at 31 December 2013	46,582	4,012	9,392	59,986
Cost				
At 1 January 2012	51,911	21,970	15,561	89,442
Additions	-	1,270	-	1,270
Disposals	-	(1,349)	-	(1,349)
Exchange differences	-	(99)	-	(99)
At 31 December 2012	51,911	21,792	15,561	89,264
Accumulated impairment losses and amortisation				
At 1 January 2012	-	17,525	2,985	20,510
Amortisation charge for the year	-	1,562	1,592	3,154
Impairment losses for the year	8	-	-	8
Disposals	-	(1,266)	-	(1,266)
Exchange differences	-	(85)	-	(85)
At 31 December 2012	8	17,736	4,577	22,321
Net book value at 31 December 2012	51,903	4,056	10,984	66,943

£27,267,000 of the goodwill balance in the current year (2012 £32,524,000) 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 The recoverable amount, determined on a value in use basis, indicated that an impairment of £5,257,000 arose in the year of the goodwill relating to Lycetts Holding Limited, as forecasted cash flows fell below the level required to maintain the valuation following lower than anticipated revenue growth in 2013 The calculation uses discounted cash flow projections based on management approved business plans, with forecast annual cash flows at the end of the planning period continuing thereafter at a constant growth rate in perpetuity

Assumptions used are consistent with historical experience within the business acquired and external sources of information, and discounting is at the Group's long-term targeted return on capital

Other intangible assets consist of acquired customer and distribution relationships, which have an overall remaining useful life of nine years on a weighted average basis.

19 Deferred acquisition costs

Group	2013 £000	2012 £000
At 1 January	34,626	35,788
Increase in the period	35,795	34,690
Release in the period	(34,720)	(35,724)
Exchange differences	(944)	(128)
At 31 December	34,757	34,626

All balances are current

20 Pension asset and retirement benefit obligations

Defined benefit pension plans

The Group's main plan is a defined benefit plan for UK employees The assets of the plan are held separately from those of the Group by the Trustee of the Ecclesiastical Insurance Office plc Staff Retirement Benefit Fund (the 'Fund') The Fund is subject to the Statutory Funding Objective under the Pensions Act 2004 An independent qualified actuary appointed by the Trustee is responsible for undertaking triennial valuations to determine whether the Statutory Funding Objective is met. Pension costs for the plan are determined by the Trustee, having considered the advice of the actuary and having consulted with the Employer The most recent triennial valuation was at 31 December 2010 Pension liabilities for the Ireland branch were dealt with by payment to an Irish life office, and Lycetts Holdings Limited also operates a defined benefit plan The Irish plan was closed, in agreement with the Trustees, after the year end Actuarial valuations have been reviewed and updated by the actuaries at 31 December 2013 for IAS 19 (R) purposes The plans typically exposes the Group to risks such as

- Investment risk The Fund holds some of its investments in asset classes, such as equities, which have volatile market values and, while these assets are expected to provide the best returns over the long-term, any short term volatility could cause additional funding to be required if a deficit emerges Derivative contracts are used from time to time which would limit losses in the event of a fall in equity markets

- Interest rate risk The Fund's 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.

- Inflation risk A significant proportion of the benefits under the Fund are linked to inflation Although the Fund's 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

- 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

During the year, the Trustee and Employer completed a revision of the Fund's Statement of Investment Principles, to align with the Trustee's strategic objectives The Trustees continue to work closely with the Plan Actuary and Fund Manager to deliver the optimal tactical implementation of these objectives The Trustees of the Irish plan chose to insure certain benefit payments using an annuity contract purchased with Irish Life Assurance Plc The payments made under the terms of the annuity contract exactly matched the benefits Subsequent to the year end the Irish plan was closed and the Group has relinquished all obligations via settlement with the Trustees The closure will not have a material impact on the Group accounts

Pension assets and liabilities of entities within the Group have been offset where there is a legal right of offset or where the gross effect of offsetting is immaterial to the financial statements The amount by which the pension asset has been offset in the current year is £1,358,000 (2012 £996,000)

All Group defined benefit plans are now closed to new entrants The Group operates a number of defined contribution pension plans, for which contributions by the Group are disclosed in note 12

NOTES TO THE FINANCIAL STATEMENTS

20 Pension asset and retirement benefit obligations (continued)

Group	2013 £000	2012 £000
The amounts recognised in the statement of financial position are determined as follows		
Present value of funded obligations	(270,813)	(239,268)
Fair value of plan assets	303,359	275,638
	32,546	36,370
Restrictions on asset recognised	(978)	-
Net asset in the statement of financial position	31,568	36,370
Movements in the net asset recognised in the statement of financial position are as follows		
At 1 January	36,370	34,809
Exchange differences	(25)	21
Expense charged to profit or loss*	(2,371)	(2,399)
Amounts recognised in other comprehensive income	(5,898)	430
Contributions paid	3,492	3,509
At 31 December	31,568	36,370
The amounts recognised through profit or loss are as follows		
Current service cost	3,816	3,672
Administration cost	250	420
Interest expense on liabilities	10,624	10,562
Interest income on plan assets	(12,319)	(12,255)
Total, included in employee benefits expense	2,371	2,399
The amounts recognised in the statement of other comprehensive income are as follows		
Return on plan assets, excluding interest income	17,465	19,476
Experience gains on liabilities	127	(828)
Losses from changes in financial assumptions	(22,512)	(18,218)
Change in asset ceiling	(978)	-
Total included in other comprehensive income	(5,898)	430

* Charge to profit or loss includes £410,000 (2012 £263,000) in respect of member salary sacrifice contributions and costs ultimately borne by related parties

NOTES TO THE FINANCIAL STATEMENTS

20 Pension asset and retirement benefit obligations (continued)

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

	2013 %	2012 %
Discount rate	4 60	4 51
Inflation (RPI)	3 49	3 00
Inflation (CPI)	2 70	2 20
Future salary increases	4 86	4 43
Future increase in pensions in deferment	2 74	2 25
Future pension increases (linked to RPI)	3 49	3 00
Future pension increases (linked to CPI)	2 70	2 20

Mortality rate	2013	2012
The average life expectancy in years of a pensioner retiring at age 65, at the year end date, is as follows		
Male	25 5	23 9
Female	27.7	26 1
The average life expectancy in years of a pensioner retiring at age 65, 20 years after the year end date, is as follows		
Male	27 9	26 2
Female	30 2	28 5

Plan assets are weighted as follows	2013 %	2012 %
Cash and cash equivalents	5	6
Equity instruments		
UK quoted	30	29
Overseas quoted	29	25
	59	54
Debt instruments		
UK public sector quoted - fixed interest	3	5
UK non-public sector quoted - fixed interest	15	18
UK quoted - index-linked	11	11
	29	34
Other	7	6
	100	100

The actual return on plan assets was a gain of £29,784,000 (2012 gain of £31,731,000)

NOTES TO THE FINANCIAL STATEMENTS

20 Pension asset and retirement benefit obligations (continued)

The movements in the fair value of plan assets and the present value of the defined benefit obligation over the year are as follows

	2013 £000	2012 £000
Plan assets		
At 1 January	275,638	250,101
Interest income	12,319	12,255
Return on plan assets, excluding interest income	17,465	19,476
Pension benefits paid and payable	(5,613)	(9,591)
Contributions paid	3,492	3,509
Administration cost	(29)	(15)
Exchange differences	87	(97)
At 31 December	303,359	275,638
Defined benefit obligation		
At 1 January	239,268	215,292
Current service cost	3,816	3,672
Administration cost	221	405
Interest cost	10,624	10,562
Pension benefits paid and payable	(5,613)	(9,591)
Experience gains/(losses) on liabilities	(127)	828
Losses from changes in financial assumptions	22,512	18,218
Exchange differences	112	(118)
At 31 December	270,813	239,268
Asset ceiling		
At 1 January	-	-
Change in asset ceiling	(978)	-
At 31 December	(978)	-

History of plan assets and liabilities	2013 £000	2012 £000	2011 £000	2010 £000	2009 £000
Present value of defined benefit obligations	(270,813)	(239,268)	(215,292)	(213,740)	(190,985)
Fair value of plan assets	303,359	275,638	250,101	237,440	205,628
	32,546	36,370	34,809	23,700	14,643
Restrictions on asset recognised	(978)	-	-	-	-
Net asset in the statement of financial position	31,568	36,370	34,809	23,700	14,643

The weighted average duration of the defined benefit obligation at the end of the reporting period is 21 years (2012 21years)

The contribution expected to be paid by the Group during the year ending 31 December 2014 is £3 6 million

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 on reasonably possible changes of the assumptions occurring at the end of the reporting period assuming that all other assumptions are held constant.

Assumption	**Change in assumption**	**Impact on plan liabilities** 2013	2012
Discount rate	Increase/decrease by 0 5%	Decrease/increase by 11%/13%	Decrease/increase by 11%/12%
Inflation	Increase/decrease by 0 5%	Increase/decrease by 10%/10%	Increase/decrease by 11%/10%
Salary increase	Increase/decrease by 0 5%	Increase/decrease by 3%	Increase/decrease by 3%
Life expectancy	Increase/decrease by 1 year	Increase/decrease by 3%	Increase/decrease by 3%

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 assumption 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

	2013 £000	2012 £000
Present value of unfunded obligations and net obligations in the statement of financial position	11,744	14,810
Movements in the net obligations recognised in the statement of financial position are as follows		
At 1 January	14,810	12,760
Total expense charged to profit or loss	783	760
Net actuarial (gains)/losses during the year, recognised in other comprehensive income	(3,653)	1,534
Benefits paid	(196)	(244)
At 31 December	11,744	14,810
The amounts recognised through profit or loss are as follows.		
Current service cost	116	122
Interest cost	667	638
Total, included in employee benefits expense	783	760

The weighted average duration of the net obligations at the end of the reporting period is 22 years (2012 22 years)

The main actuarial assumptions for the plan are a long-term increase in medical costs of 12 0% (2012 12 0%) and a discount rate of 4 6% (2012 4 5%) The sensitivity analysis below has been determined on reasonably possible changes of the assumptions occurring at the end of the accounting period assuming that all other assumptions are held constant.

Assumption	Change in assumption	Impact on plan liabilities 2013	2012
Discount rate	Increase/decrease by 0 5%	Decrease/increase by 10%/11%	Decrease/increase by 10%/12%
Medical expense inflation	Increase/decrease by 1 0%	Increase/decrease by 23%/18%	Increase/decrease by 24%/18%
Life expectancy	Increase/decrease by 1 year	Increase/decrease by 11%/8%	Increase/decrease by 11%/8%

21 Property, plant and equipment

Group	Land and buildings £000	Motor vehicles £000	Furniture, fittings and equipment £000	Computer equipment £000	Total £000
Cost or valuation					
At 1 January 2013	3,688	3,219	7,426	8,003	22,336
Additions	-	634	63	933	1,630
Disposals	-	(975)	(612)	(604)	(2,191)
Revaluation	(104)	-	-	-	(104)
Exchange differences	(79)	-	(119)	(354)	(552)
At 31 December 2013	3,505	2,878	6,758	7,978	21,119
Depreciation					
At 1 January 2013	-	1,281	5,628	6,176	13,085
Charge for the year	-	514	563	1,004	2,081
Disposals	-	(639)	(548)	(540)	(1,727)
Exchange differences	-	-	(89)	(293)	(382)
At 31 December 2013	-	1,156	5,554	6,347	13,057
Net book value at 31 December 2013	3,505	1,722	1,204	1,631	8,062
Cost or valuation					
At 1 January 2012	4,154	3,060	6,797	8,304	22,315
Additions	-	673	809	747	2,229
Disposals	-	(514)	(137)	(969)	(1,620)
Revaluation	(448)	-	-	-	(448)
Exchange differences	(18)	-	(43)	(79)	(140)
At 31 December 2012	3,688	3,219	7,426	8,003	22,336
Depreciation					
At 1 January 2012	-	1,066	5,079	6,183	12,328
Charge for the year	-	548	714	1,017	2,279
Disposals	-	(333)	(137)	(964)	(1,434)
Exchange differences	-	-	(28)	(60)	(88)
At 31 December 2012	-	1,281	5,628	6,176	13,085
Net book value at 31 December 2012	3,688	1,938	1,798	1,827	9,251

A certain property, held as an investment property by a subsidiary undertaking but occupied by the Group, was revalued at 31 December 2013 All others were revalued at 31 December 2012 Valuations were carried out by Cluttons, an external firm of Chartered Surveyors, using standard industry methodology to determine a fair market value All properties are classified as level 2 assets

The value of land and buildings on a historical cost basis is £3,673,000 (2012 £3,698,000)

Depreciation expense has been charged in other operating and administrative expenses

Included within net book value of motor vehicles is £1,530,000 (2012 £1,719,000) and within net book value of computer equipment is £30,000 (2012 £42,000) in respect of assets held under finance leases

22 Investment property

Group	2013 £000	2012 £000
Net book value at 1 January	27,315	27,473
Additions	17,894	1,982
Disposals	(1,453)	(961)
Fair value gains/(losses)	1,343	(1,179)
Net book value at 31 December	45,099	27,315

The Group's investment properties were last revalued at 31 December 2013 by Cluttons, an external firm of Chartered Surveyors Valuations were carried out using standard industry methodology to determine a fair market value All properties are classified as level 2 assets

Investment properties are held for long-term capital appreciation rather than short-term sale Rental income arising from the investment properties owned by the Group amounted to £2,017,000 (2012 £1,802,000) and is included in net investment return Other operating and administrative expenses include £350,000 (2012 £337,000) relating to investment property

23 Financial investments

Financial investments summarised by measurement category are as follows

	2013		2012	
	Group £000	Parent £000	Group £000	Parent £000
Financial investments at fair value through profit or loss				
Equity securities				
- listed	276,930	-	264,018	-
- unlisted	23,204	3,813	21,880	3,317
Debt securities				
- government bonds	225,413	-	266,300	-
- listed	416,445	-	355,733	-
- unlisted	205	-	6,176	-
Derivative financial instruments				
- futures	-	-	443	-
- options	158	-	1,403	-
	942,355	3,813	915,953	3,317
Loans and receivables				
Loans secured by mortgages	7,892	-	9,455	-
Other loans	19	-	23	-
	7,911	-	9,478	-
Parent investments in subsidiary undertakings				
Shares in subsidiary undertakings				
- listed	-	947	-	2,747
- unlisted	-	36,138	-	35,088
	-	37,085	-	37,835
Total financial investments	950,266	40,898	925,431	41,152
Current	391,206	-	384,085	-
Non-current	559,060	40,898	541,346	41,152

24 Derivative financial instruments

The Group utilises non-hedge derivatives to mitigate equity price risk arising from investments held at fair value and foreign exchange risk arising from insurance liabilities denominated in foreign currencies

Group	2013			2012		
	Contract/ notional amount £000	Fair value asset £000	Fair value liability £000	Contract/ notional amount £000	Fair value asset £000	Fair value liability £000
Equity/Index contracts						
Futures	-	-	-	53,075	443	-
Options	30,000	158	-	30,000	846	-
Foreign exchange contracts						
Options	-	-	-	25,000	557	-
	30,000	158	-	108,075	1,846	-

All balances are current

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 transaction They do not reflect current market values of the open positions

The derivative fair value assets are recognised within financial investments (note 23)

Amounts pledged as collateral in respect of derivative contracts are disclosed in note 26

25 Other assets

	2013		2012	
	Group £000	Parent £000	Group £000	Parent £000
Receivables arising from insurance and reinsurance contracts				
- due from contract holders	25,474	-	31,027	-
- due from agents, brokers and intermediaries	43,287	-	53,434	-
- due from reinsurers	8,808	-	13,356	-
Other receivables				
- accrued interest and rent	7,876	-	7,251	-
- other prepayments and accrued income	3,786	-	3,764	-
- amounts owed by related parties	630	106	436	-
- other debtors	25,839	-	26,827	-
	115,700	106	136,095	-
Current	113,700	106	134,095	-
Non-current	2,000	-	2,000	-

The Group has recognised a credit of £71,000 (2012 charge of £43,000) in other operating and administrative expenses in the statement of profit or loss for the impairment of its trade and other receivables during the year

The Group balance due from reinsurers comprises £11,728,000 (2012 £15,121,000) receivable net of £2,920,000 (2012 £1,765,000) payable

NOTES TO THE FINANCIAL STATEMENTS

25 Other assets (continued)

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

Movement in the Group allowance for doubtful debts	2013 £000	2012 £000
Balance at 1 January	882	666
Movement in the year	(559)	216
Balance at 31 December	323	882

Included within trade receivables of the Group is £5,379,000 (2012 £7,084,000) overdue but not impaired, of which £4,676,000 (2012 £5,930,000) is not more than three months overdue at the reporting date

26 Cash and cash equivalents

	2013		2012	
	Group £000	Parent £000	Group £000	Parent £000
Cash at bank and in hand	70,213	2,715	81,099	928
Short-term bank deposits	59,121	-	52,516	-
	129,334	2,715	133,615	928

Included within cash at bank and in hand of the Group is £4,948,000 (2012 £nil) pledged as collateral in respect of an insurance liability

Included within short-term bank deposits of the Group and Parent are cash deposits of £nil (2012 £2,257,000) pledged as collateral by way of cash margins on open derivative contracts and cash to cover derivative liabilities

27 Called up share capital

	2013 £000	2012 £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 Non-controlling interests

Non-controlling interests are comprised of the 8 625% Non-Cumulative Irredeemable Preference shares (NcIPs) in Ecclesiastical Insurance Office plc and the Lycetts non-controlling interest (see note 17)

	Lycetts £000	NcIPs £000
Balance at 1 January 2013	13,869	103,703
(Purchase of)/sale to non-controlling interest	(1,232)	1,800
Subsidiary loss attributable to non-controlling interest	(1,076)	-
Balance 31 December 2013	11,561	105,503

Summarised financial information in respect of Lycetts is set out below

	2013 £000	2012 £000
Assets	25,780	26,342
Liabilities	18,580	20,071
Revenue	19,304	20,163
Profit for the year	2,287	2,942
Total comprehensive income	1,716	3,103
Net cash from operating activities	1,636	5,903
Net cash from investing activities	124	165
Net cash used by financing activities	(84)	(82)
Dividends paid to non-controlling interests	216	328

29 Insurance liabilities and reinsurance assets

Group	2013 £000	2012 £000
Gross		
Claims outstanding	569,179	565,937
Unearned premiums	186,642	219,798
Long-term business provision	92,446	92,956
Total gross insurance liabilities	848,267	878,691
Recoverable from reinsurers		
Claims outstanding	89,472	94,902
Unearned premiums	43,121	46,109
Total reinsurers' share of insurance liabilities	132,593	141,011
Net		
Claims outstanding	479,707	471,035
Unearned premiums	143,521	173,689
Long-term business provision	92,446	92,956
Total net insurance liabilities	715,674	737,680
Gross insurance liabilities		
Current	372,878	421,048
Non-current	475,389	457,643
Reinsurance assets		
Current	105,451	100,035
Non-current	27,142	40,976

(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 chain ladder, the Bornhuetter-Ferguson and average cost methods

Chain ladder methods extrapolate paid amounts, incurred amounts (paid claims plus case estimates), 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 historic 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 primarily by the Thomas Mack actuarial method, based on at least the 75th percentile confidence level for each portfolio For smaller portfolios where the Thomas Mack method cannot be applied, provisions have been calculated at a level intended to provide an equivalent probability of sufficiency Where the standard methods cannot allow for changing circumstances then additional uncertainty margins are added and are typically expressed as a percentage of outstanding claims This approach generally results in a favourable release of provisions in the current financial year, arising from the settlement of claims relating to previous financial years, as shown in part (c) of the note

(iii) Calculation of provisions for latent claims

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

29 Insurance liabilities and reinsurance assets (continued)

(iv) Discounting

General insurance outstanding claims provisions are undiscounted, except for certain 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	2013	2012	2013	2012
UK and Ireland	0 4% to 3 8%	0 3% to 3 4%	15	15
Canada	1 1% to 3 2%	1 1% to 2 5%	14	9
Australia	3 3%	2 8%	5	5

The applied rates of interest are based on government bond yield curves of the relevant currency and term at the reporting date, adjusted where appropriate to reflect portfolio assets held and to allow for future investment expenses At the year end the undiscounted gross outstanding claims provision was £626,418,000 for the Group (2012 £582,674,000)

At 31 December 2013, it is estimated that a fall of 1% in the discount rates used would increase the Group's net outstanding claims provisions by £12,402,000 (2012 £11,541,000) 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) Unexpired risks liability

In the prior year, the unearned premium of the Group's Australia business was found to have a deficiency of £6,464,000 This deficiency was reflected in the Group statement of financial position as a write-down against deferred acquisition costs In the current year this has been released as a credit against deferred acquisition costs

(vi) Assumptions

The Group follows a process of reviewing its reserves for outstanding claims on a quarterly 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 terms of the reinsurance treaties, the anticipated time taken to settle a claim and the incidence of large individual and aggregated claims

(vii) Changes in assumptions

There are no significant changes in assumptions

(viii) 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 insurance claims reserved for 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

		2013		2012	
		Gross	Net	Gross	Net
		£000	£000	£000	£000
Liability	- UK	28,300	25,500	24,800	22,600
	- Overseas	12,000	9,900	11,600	5,700
Property	- UK	6,900	4,100	6,700	4,000
	- Overseas	5,200	3,200	5,900	3,000
Motor	- UK	2,900	2,500	3,100	2,500
	- Overseas	-	-	100	100

NOTES TO THE FINANCIAL STATEMENTS

29 Insurance liabilities and reinsurance assets (continued)

(ix) 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

	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	Total £000
At end of year	42,503	46,155	45,688	50,840	56,420	74,742	84,476	82,095	100,612	81,725	
One year later	40,075	32,998	45,900	47,307	53,552	59,807	75,550	76,371	88,046		
Two years later	35,645	35,001	40,092	43,270	47,643	55,250	62,239	71,543			
Three years later	33,431	30,365	36,168	35,510	44,658	57,134	66,422				
Four years later	31,870	26,835	30,791	35,556	40,433	55,695					
Five years later	25,912	25,860	28,470	34,925	37,546						
Six years later	25,713	25,893	27,154	34,036							
Seven years later	25,685	25,312	27,377								
Eight years later	25,112	25,753									
Nine years later	24,814										
Current estimate of ultimate claims	24,814	25,753	27,377	34,036	37,546	55,695	66,422	71,543	88,046	81,725	512,957
Cumulative payments to date	(21,360)	(21,696)	(22,262)	(26,119)	(28,621)	(33,097)	(28,259)	(17,008)	(8,193)	(1,719)	(208,334)
Outstanding liability	3,454	4,057	5,115	7,917	8,925	22,598	38,163	54,535	79,853	80,006	304,623
Effect of discounting											(21,899)
Present value											282,724
Discounted liability in respect of earlier years											88,932
Total discounted gross liability (for liability classes) included in insurance liabilities in the statement of financial position											371,656

Estimate of net ultimate claims

	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	Total £000
At end of year	35,349	39,528	41,007	46,235	51,795	64,476	73,218	75,302	88,247	76,729	
One year later	34,867	32,780	40,976	43,107	48,432	53,700	64,796	72,336	79,272		
Two years later	29,447	31,287	35,783	38,979	44,498	50,805	57,758	68,057			
Three years later	28,486	28,641	33,145	34,180	42,524	50,168	59,353				
Four years later	27,840	25,665	30,283	35,004	39,321	50,062					
Five years later	24,560	25,391	28,230	34,688	37,208						
Six years later	24,482	25,150	26,926	33,702							
Seven years later	24,435	24,024	27,150								
Eight years later	23,892	24,534									
Nine years later	23,697										
Current estimate of ultimate claims	23,697	24,534	27,150	33,702	37,208	50,062	59,353	68,057	79,272	76,729	479,764
Cumulative payments to date	(20,332)	(20,714)	(22,116)	(25,939)	(28,424)	(31,458)	(27,160)	(16,897)	(8,158)	(1,712)	(202,910)
Outstanding liability	3,365	3,820	5,034	7,763	8,784	18,604	32,193	51,160	71,114	75,017	276,854
Effect of discounting											(19,094)
Present value											257,760
Discounted liability in respect of earlier years											72,832
Total discounted net liability (for liability classes) included in insurance liabilities in the statement of financial position											330,592

NOTES TO THE FINANCIAL STATEMENTS

29 Insurance liabilities and reinsurance assets (continued)

(b) Long-term insurance contracts

(i) Assumptions

The most significant assumptions in determining long-term business 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 tax and investment expenses for the current valuation are as follows

	2013	2012
UK government bonds non-linked	2 76%	2 13%
UK government bonds index-linked	-0 31%	-0 50%
Corporate debt instruments index-linked	0 42%	0 29%

The investment return assumption is determined by calculating an overall yield on all cash flows projected to occur from the portfolio of financial assets which are assumed to back the relevant class of liabilities This is in accordance with a modification to PRA Rule INSPRU 3 1 35R, which was granted in September 2011 For index-linked assets, the real yield is shown

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 70 per annum (2012 £13 20 per annum)

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 05% per annum (2012 3 39%)

Tax

It has been assumed that tax legislation and rates applicable at 1 January 2014 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 decreased by £1 9 million (2012 £0 7 million increase)

The effect on insurance liabilities of the changes to unit renewal expense assumptions (described in (i) above), was a £0 4 million increase (2012 £1 3 million decrease)

(iii) Sensitivity analysis

The sensitivity of profit or loss before tax to changes in the key assumptions used to calculate the long-term business 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	
		2013	2012
Variable		£000	£000
Deterioration in annuitant mortality	-10%	100	400
Improvement in annuitant mortality	+10%	(100)	(500)
Increase in fixed interest/cash yields	+1% pa	(1,400)	-
Decrease in fixed interest/cash yields	-1% pa	(1,100)	(1,300)
Worsening of base renewal expense level	+10%	(500)	(500)
Improvement in base renewal expense level	-10%	500	500
Increase in expense inflation	+1% pa	(700)	(600)
Decrease in expense inflation	-1% pa	600	500

NOTES TO THE FINANCIAL STATEMENTS

29 Insurance liabilities and reinsurance assets (continued)

(iv) Available capital resources

	Non-profit life fund £000	Share-holders' fund £000	Total life business £000	Other activities £000	Group total £000
2013					
Shareholders' equity	(1,136)	41,515	40,379	372,108	412,487
Adjustments to assets/liabilities	7,500	(7,500)	-	(100,723)	(100,723)
Total available capital resources	6,364	34,015	40,379	271,385	311,764
Policyholder liabilities					
- life insurance business	92,446	-	92,446		
Net actuarial liabilities on statement of financial position	92,446	-	92,446		
2012					
Shareholders' equity	(1,814)	35,770	33,956	342,543	376,499
Adjustments to assets/liabilities	10,500	(10,500)	-	(75,944)	(75,944)
Adjustments to actuarial liabilities	(1,188)	-	(1,188)	-	(1,188)
Total available capital resources	7,498	25,270	32,768	266,599	299,367
Policyholder liabilities					
- life insurance business	92,956	-	92,956		
Net actuarial liabilities on statement of financial position	92,956	-	92,956		

Shareholders' equity/(deficit) in the non-profit fund represents the net profit or loss generated by this fund not transferred, to date, to the shareholders' fund The life shareholders' fund is the balance of shareholder equity in the life business Available capital resources of the life business include an allowance for solvency reserves which do not meet the recognition criteria in the accounts

Other activities include the general insurance business of the Group, and consequently all Group capital not required to meet the solvency requirements of the general business is available to meet the solvency requirements of the life business

The available capital resources in the non-profit life fund, subject to the regulatory capital requirements of the fund itself, are available to meet requirements elsewhere in the Group The capital requirements of the life business are based on the PRA capital requirements

The Group uses both its Individual Capital Assessment and its Individual Capital Guidance as a tool for determining capital requirements and their sensitivity to various risks The Group manages these risks by means of its underwriting strategy, reinsurance strategy, investment strategy, and management control framework

(v) Movements in life capital

	Non-profit life fund £000	Share-holders' fund £000	Total life business £000
Published capital resources as at 31 December 2012	7,498	25,270	32,768
Effect of new business	(734)	-	(734)
Variance between actual and expected experience	388	-	388
Change of tax basis	20	-	20
Change in methodology	724	-	724
Effect of changes to valuation interest rates	(365)	-	(365)
Effect of change to expense assumption	4	-	4
Transfers between funds	(3,000)	3,000	-
Other movements	1,829	5,745	7,574
Capital resources as at 31 December 2013	6,364	34,015	40,379

NOTES TO THE FINANCIAL STATEMENTS

29 Insurance liabilities and reinsurance assets (continued)

(c) Movements in insurance liabilities and reinsurance assets

Group	Gross £000	Reinsurance £000	Net £000
Claims outstanding			
At 1 January 2013	565,937	(94,902)	471,035
Cash (paid)/received for claims settled in the year	(214,817)	38,888	(175,929)
Change in liabilities/reinsurance assets			
- arising from current year claims	238,818	(37,309)	201,509
- arising from prior year claims	(3,519)	764	(2,755)
Exchange differences	(17,240)	3,087	(14,153)
At 31 December 2013	569,179	(89,472)	479,707
Provision for unearned premiums			
At 1 January 2013	219,798	(46,109)	173,689
Increase in the period	191,426	(43,370)	148,056
Release in the period	(218,631)	45,983	(172,648)
Exchange differences	(5,951)	375	(5,576)
At 31 December 2013	186,642	(43,121)	143,521
Long-term business provision			
At 1 January 2013	92,956	-	92,956
Effect of new business during the year	6,291	-	6,291
Effect of claims during the year	(7,569)	-	(7,569)
Changes in assumptions	(1,335)	-	(1,335)
Change in methodology	(21)	-	(21)
Other movements	2,124	-	2,124
At 31 December 2013	92,446	-	92,446
Claims outstanding			
At 1 January 2012	935,253	(481,889)	453,364
Cash (paid)/received for claims settled in the year	(318,749)	140,988	(177,761)
Change in liabilities/reinsurance assets			
- arising from current year claims	302,155	(67,933)	234,222
- arising from prior year claims	(16,114)	(14,265)	(30,379)
Disposal of business	(337,489)	333,745	(3,744)
Exchange differences	881	(5,548)	(4,667)
At 31 December 2012	565,937	(94,902)	471,035
Provision for unearned premiums			
At 1 January 2012	221,087	(58,884)	162,203
Increase in the period	220,820	(46,231)	174,589
Release in the period	(220,416)	58,673	(161,743)
Exchange differences	(1,693)	333	(1,360)
At 31 December 2012	219,798	(46,109)	173,689
Long-term business provision			
At 1 January 2012	81,714	-	81,714
Effect of new business during the year	20,857	-	20,857
Effect of claims during the year	(6,151)	-	(6,151)
Changes in assumptions	(5,455)	-	(5,455)
Change in methodology	199	-	199
Other movements	1,792	-	1,792
At 31 December 2012	92,956	-	92,956

30 Provisions for other liabilities and contingent liabilities

(a) Provisions

Group	Regulatory and legal provisions £000	Restructuring and other provisions £000	Total £000
At 1 January 2013	6,569	704	7,273
Additional provisions	329	2,767	3,096
Used during year	(1,344)	(97)	(1,441)
Not utilised	(2,092)	(102)	(2,194)
Exchange differences	-	(24)	(24)
At 31 December 2013	3,462	3,248	6,710
Current	3,462	3,090	6,552
Non-current	-	158	158

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 life business The provisions reflect an assessment by the Group of its share of the total potential levies

In addition, from time to time the Group receives complaints from customers and, whilst the majority relate to cases where there has been no customer detriment, we recognise that we have provided, and continue to provide, advice and services across a wide spectrum of regulated activities We therefore believe that it is prudent to hold a provision for costs of customer complaints relating to services provided The Group continues to re-assess the ultimate level of complaints expected and the appropriateness of the provision, which reflects the potential redress and associated administration costs that would be payable in relation to any complaints we may uphold Further administration costs in relation to invalid claims are also included in the provision

Restructuring and other provisions

The provision for restructuring and other costs relates to costs in respect of redundancies, onerous leases and dilapidations

(b) Contingent liabilities

The Company is in correspondence with HM Revenue and Customs regarding the treatment of its preference share capital for group tax purposes Whilst it is possible that this will lead to an additional tax cost to the Group, we do not consider it probable that a further charge will arise and so have not made any provision in respect of this issue In the unlikely event the issue is not settled as expected, the Group's best estimate is that the additional tax cost would be in the range of £0 3m to £7 6m

31 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 2012	26,562	5,589	5,680	(6,715)	31,116
Charged to profit or loss	5,098	128	660	1,667	7,553
(Credited)/charged to profit or loss					
- resulting from reduction in tax rate	(2,098)	(407)	(454)	83	(2,876)
Credited to other comprehensive income	-	(239)	-	(87)	(326)
Credited to other comprehensive income					
- resulting from reduction in tax rate	-	(111)	-	(7)	(118)
Exchange differences	2	33	-	66	101
At 31 December 2012	29,564	4,993	5,886	(4,993)	35,450
Charged/(credited) to profit or loss	6,804	67	49	(605)	6,315
(Credited)/charged to profit or loss					
- resulting from reduction in tax rate	(3,806)	(517)	(768)	199	(4,892)
Credited to other comprehensive income	-	(449)	-	(31)	(480)
Credited to other comprehensive income and equity					
- resulting from reduction in tax rate	-	(130)	-	(21)	(151)
Exchange differences	(60)	-	-	625	565
At 31 December 2013	32,502	3,964	5,167	(4,826)	36,807

Parent

The deferred tax liability, shown below, arises on unrealised gains on investments The increase of £72,000 (2012 £42,000 increase), net of a £10,000 decrease (2012 £3,000 decrease) resulting from the reduction in tax rate, is recognised in the statement of profit or loss in the year

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes

	2013 Group £000	2013 Parent £000	2012 Group £000	2012 Parent £000
Deferred tax liabilities	40,267	151	38,732	79
Deferred tax assets	(3,460)	-	(3,282)	-
	36,807	151	35,450	79

The Group has unused tax losses of £22,141,000 (2012 £27,686,000) arising from life business and capital transactions, which are available for offset against future profits No deferred tax asset has been recognised due to the unpredictability of future profit streams

32 Other liabilities

	2013 Group £000	2013 Parent £000	2012 Group £000	2012 Parent £000
Creditors arising out of direct insurance operations	656	-	929	-
Creditors arising out of reinsurance operations	13,578	-	15,999	-
Other creditors	26,774	-	29,907	-
Amounts owed to related parties	11	-	3,986	8
Accruals	15,036	2	12,789	2
	56,055	2	63,610	10
Current	55,769	2	62,004	10
Non-current	286	-	1,606	-

The Group creditors arising out of reinsurance operations comprises £39,745,000 (2012 £43,346,000) payable net of £26,167,000 (2012 £27,347,000) receivable

The Group amounts owed to related parties comprises £11,000 (2012 £4,000,000) payable net of £nil (2012 £14,000) receivable

33 Commitments

Capital commitments
At the year end, the Group had capital commitments of £1,685,000, relating to computer software (2012 £nil)

Operating lease commitments
The Group leases premises and equipment under non-cancellable operating lease agreements

The future aggregate minimum lease rentals receivable under non-cancellable operating leases are as follows

	2013 £000	2012 £000
Within 1 year	2,793	1,711
Between 1 & 5 years	9,293	5,458
After 5 years	19,083	9,554
	31,169	16,723

The future aggregate minimum lease payments under non-cancellable operating leases are as follows

	2013 £000	2012 £000
Within 1 year	3,260	3,182
Between 1 & 5 years	6,377	6,207
After 5 years	1,529	2,250
	11,166	11,639
Operating lease rentals charged to profit or loss during the year	4,044	4,127
Total future minimum sublease payments expected to be received under non-cancellable subleases	68	107

34 Parent and subsidiary 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 All the entities listed are included within the consolidated financial statements Voting rights are in line with the holdings of Ordinary shares

The Company's interest in Group undertakings at 31 December 2013 is as follows

Subsidiary undertakings	Share capital	Holding of shares by	
		Parent	Subsidiary
Incorporated and operating in Great Britain, engaged in investment, insurance and financial services or other insurance-related business			
Ecclesiastical Insurance Office plc	Ordinary shares	100%	-
	8 625& Non-Cumulative Irredeemable Preference shares	09%	-
Ecclesiastical Underwriting Management Limited	Ordinary shares	100%	-
Ecclesiastical Financial Advisory Services Limited	Ordinary shares	-	100%
Ecclesiastical Investment Management Limited	Ordinary shares	-	100%
Ecclesiastical Life Limited	Ordinary shares	-	100%
South Essex Insurance Holdings Limited	Ordinary shares	-	100%
South Essex Insurance Brokers Limited	Ordinary shares	-	100%
Lycetts Holdings Limited	Ordinary shares	75%	-
Lycett, Browne-Swinburne & Douglass Limited	Ordinary shares	-	100%
Lycetts Financial Services Limited	Ordinary shares	-	100%
Highflyer Bloodstock Agency Limited	Ordinary shares	-	100%
Farmers & Mercantile Insurance Brokers Limited	Ordinary shares	-	100%
Incorporated and operating in Great Britain, engaged in retail of goods and services			
Ecclesiastical Services Limited	Ordinary shares	100%	-
Incorporated in Great Britain, dormant			
E I O Trustees Limited	Ordinary shares	-	100%
Lycetts Limited	Ordinary shares	-	100%
Lycetts Hamilton Limited	Ordinary shares	-	100%
Hydra House Limited	Ordinary shares	-	100%
Farmers & Mercantile Insurance Brokers (York) Limited	Ordinary shares	-	100%
Farmdirect Insurance Services Limited	Ordinary shares	-	100%
Incorporated and operating in Australia, engaged in insurance business			
Ansvar Insurance Limited	Ordinary shares	-	100%
Incorporated in Australia, dormant			
EA Insurance Services Pty Limited	Ordinary shares	-	100%
Associate			
Incorporated and operating in Great Britain, engaged in insurance broking business			
Amlin Plus Limited	Ordinary shares	-	40%

NOTES TO THE FINANCIAL STATEMENTS

34 Parent and subsidiary undertakings (continued)

The percentage shareholdings of the subsidiaries are the direct or indirect holdings of Ecclesiastical Insurance Office plc with the exception of Lycett, Browne-Swinburne & Douglass Limited, Lycetts Financial Services Limited, Highflyer Bloodstock Agency Limited, Farmers & Mercantile Insurance Brokers Limited, Lycetts Limited, Lycetts Hamilton Limited, Hydra House Limited, Farmers & Mercantile Insurance Brokers (York) Limited, Farmdirect Insurance Services Limited and Amlin Plus Limited, all of which are directly or indirectly owned by Lycetts Holdings Limited

35 Related party transactions

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

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

	Parent £000	Subsidiaries £000	Other related parties £000
2013			
Group			
Trading, investment and other income, including recharges	197	-	893
Trading, investment and other expenditure, including recharges	-	-	2,243
Amounts owed by related parties	-	-	630
Amounts owed to related parties	11	-	-
Parent			
Trading, investment and other income, including recharges	-	781	-
Trading, investment and other expenditure, including recharges	-	177	-
Amounts owed by related parties	-	106	-
Amounts owed to related parties	-	15,258	-
2012			
Group			
Trading, investment and other income, including recharges	196	-	848
Trading, investment and other expenditure, including recharges	-	-	4,595
Amounts owed by related parties	-	-	436
Amounts owed to related parties	3,986	-	-
Parent			
Trading, investment and other income, including recharges	-	7,168	-
Trading, investment and other expenditure, including recharges	-	7,596	-
Amounts owed by related parties	-	-	-
Amounts owed to related parties	-	15,260	-

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

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

36 Non-adjusting events after the reporting period

On 15 April 2014, South Essex Insurance Brokers Limited acquired the assets and liabilities of Lansdown Insurance Brokers, an unlisted insurance services partnership based in the United Kingdom, for a cash consideration of £5 0m, with additional immaterial deferred consideration expected The net assets acquired were immaterial and therefore goodwill is expected to be recognised on acquisition