Company Number 1718196

ECCLESIASTICAL

ECCLESIASTICAL INSURANCE GROUP plc

2016 ANNUAL REPORT

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DIRECTORS AND COMPANY INFORMATION

Directors	* J. F. Hylands FFA *Chairman* I. G. Campbell BSc (Econ) (Hons), ACA *Group Chief Financial Officer* * T. J. Carroll BA, MBA, FCII * R.D.C. Henderson FCA M. C. J. Hews BSc, FIA *Group Chief Executive* * A. P. Latham ACII * A. J. McIntyre MA, ACA * C. H. Taylor BSc (Hons) Banking and International Finance S. J. Whyte MC Inst. M, ACII *Deputy Group Chief Executive* * The Very Reverend 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	24 Monument Street, London EC3R 8AJ Tel: 0800 358 3010
Auditor	Deloitte LLP, London
Legal Advisors	Charles Russell Speechlys LLP, London

* *Non-executive directors*

STRATEGIC REPORT

The directors present the Strategic Report of the Company for the year ended 31 December 2016.

Group Chief Executive's Review

A caring business with a heart

Ecclesiastical is proud to be a trusted, caring business with a charitable purpose. In 2016, we demonstrated the strength of that purpose by achieving our goal of giving £50m to charity in three years.

We celebrated this achievement with a Service of Thanksgiving at Gloucester Cathedral, where we heard moving and inspiring stories from some of over 3,000 charities we have helped in that time.

Sitting in that magnificent building, I was reminded forcibly of what sets our company apart. Most businesses do not exist to give money to great charitable causes and make people's lives better. We do.

Shaped by our charitable ownership

In the world of financial services, Ecclesiastical's business model is unique.

Owned by a charity, we are not driven by the need to grow at any cost in order to satisfy short-term shareholder or owner demands. Instead, we are encouraged by our charitable owner to build a sustainable, ethical, values-driven business over the longer-term.

Our ownership also drives us to deliver unrivalled levels of customer relationship and care, putting customers first, particularly in times of need.

In this sense, our insurance business seeks to provide insurance that you can believe in, rather than cheap insurance that may not provide the level of cover you expected at your time of need.

Indeed, for 130 years we've been trusted to protect so much of Great Britain's irreplaceable heritage and history, insuring as we do palaces, world heritage sites, treasure houses, independent schools, churches and cathedrals – in fact the majority of the country's Grade I listed buildings.

Strong results that benefit society

I am pleased to report that 2016 has been an outstanding year. We have delivered a pre-tax profit of £61.8m compared with £56.6m in 2015 and an underwriting profit of £20.1m, up from £13.5m the previous year. This generated a Group combined operating ratio of 89.8%, a significant improvement on the 93.2% achieved during 2015. These profits saw the Group's capital position remain strong on all measures.

We delivered these results against an uncertain external environment. Benign weather conditions and higher than expected releases from prior year claims in most of our territories acted in our favour, though we were impacted by natural disasters such as the Fort McMurray wildfires in Canada and flash floods in the UK in June.

The recently announced reduction in the Ogden discount rate to minus 0.75% had a minimal impact on our 2016 results as our liability portfolio is less sensitive to the level of the rate due to low frequency of catastrophic injury cases, and our discontinued UK Motor business is at an advanced stage of run off.

Investment markets rallied following considerable volatility after the Brexit decision and US presidential election, with an overall positive impact on our investment returns, supported by post-Brexit currency movements.

Thanks to our strong financial results, we were able to make charitable donations in excess of £24m, exceeding our target of giving £50m in three years in March 2016 and helping to change people's lives for the better. Many lives have been touched by the kindness and compassion of the charitable organisations that we have supported here in the UK, as well as overseas in Canada, Australia and Ireland.

As I look back on our financial and charitable achievements, I take great pride in what makes Ecclesiastical different. First and foremost, we are a brand with a purpose – a business that generates sustainable profits to help those who need it most.

Trusted to do the right thing

Financial services remains the least trusted industry in the world, according to a respected global survey*. I am delighted that Ecclesiastical continues to buck this trend, as evidenced by external recognition. This speaks to our aim of being the most trusted and ethical business in our chosen markets, and is testimony to the store we set on doing the right thing for our customers.

In my role as Group CEO, I am privileged to meet many people from all walks of life and am frequently touched to receive unsolicited praise for our outstanding service. Some people tell me about the fair and compassionate way our claims teams handled their claim and how we were on their side in difficult times. Some tell me about exceptional advice received from our expert, specialist advisors and I have heard many complimentary remarks about our ethical investment offerings. Many of those I speak to feel compelled to write to us with their thanks.

*2016 Edelman Trust Barometer

Such feedback is powerful and it is amplified by independent survey evidence. In the UK, our customer satisfaction levels are 99-100% across the board, while 98% of our customers are satisfied with how we have handled their claim. For the 10th consecutive year, UK brokers have named us as the best insurance provider for charity, education and heritage.

This reflects the expert, specialist knowledge we have built up over 130 years and our passion for our customers. Our trusted status makes us distinctive in our markets, and gives us a keen competitive edge.

Externally, this difference was recognised in a number of high-profile ways. We were named Insurance Company of the Year at the Better Society Awards in the UK, and were finalists at the equivalent award in Australia. We were awarded a national award for customer care at the industry's Claims Awards for service. We have been ranked the most trusted home insurance provider by Fairer Finance, ahead of 47 other insurers. EdenTree was named Moneyfacts Best Ethical Investment Provider for the eighth consecutive year, while in Canada, we were recognised as a Top Employer for Young People for the fifth year in a row.

Of course, we are not perfect and never will be. But I know that we strive to do the right thing – and we aim to be a 'beacon of light' in an era where there is so much distrust in financial services.

Progress in detail
The last three years have seen strong delivery, both financially and strategically. We have delivered a robust change programme during this time and have become a profitable, better skilled and more focused business. We have continued to invest in the business, and this investment in IT, brand and innovation has increased our expense ratio in the short term, but the success of these initiatives is clear in our building track record of strong and sustainable profits.

General insurance
Our underwriting performance[1] for the year was a profit of £20.1m (2015: £13.5m profit), resulting in a Group combined operating ratio (COR)[1] of 89.8% (2015: 93.2%). The relatively benign weather in the UK and Ireland and more favourable development of prior year claims on the Group's liability business has meant that, despite some significant catastrophe events in Canada and Australia, we have delivered a third consecutive year of improvement in underwriting profits.

United Kingdom and Ireland
In the UK and Ireland underwriting profits increased to £25.0m (2015: £11.6m profit) giving a COR of 82.5% (2015: 92.3%).

The UK and Ireland property business showed improved underwriting performance compared with last year. Relatively benign weather was experienced in the UK and Ireland across most of the year with December also being drier and warmer than the long-term average. The flash floods in June, though unexpected, were significantly less costly than weather events at the end of 2015. The number of large fire related losses also returned to more normal levels this year which contributed to the increase in profits.

Our liability business performance continues to improve and produce strong profits, enhancing the overall positive underwriting performance for the year. Current year claims performance was better than expected, and we have also had the benefit of reserve releases as historical claims have been settled at amounts that were less than anticipated.

This combination of low claims experience across both property and liability portfolios in the same year means we have achieved what we consider to be an unusually low COR this year. While we do expect to continue to deliver underwriting profits in the UK and Ireland in the future, we would not expect claims to be so low on a consistent basis.

In 2016, GWP has fallen by 3.4% to £220m, (2015: £228m). Commercial insurance business in the UK and Ireland continues to be competitive. In the face of that competition, retention levels remain very high, reflecting the value that our customers and business partners place on our expertise and service. The main downward pressure on growth came in the education sector where we faced continued pressure from the Department for Education's risk protection arrangement for academy trusts, and in the very crowded household sector where we continue to focus on underwriting discipline over growth. Increased investment in expertise, innovation and development of new products has seen GWP in our Commercial, Art & Private Client and Real Estate niches grow by more than 5% in 2016.

Our strategy over the medium term remains to achieve moderate GWP growth by adding good-quality business in our existing areas of expertise, at a steady pace, using our specialist capabilities to differentiate ourselves in the marketplace. We expect the business environment to remain very competitive, particularly for commercial property business. We will continue our approach, in accordance with our philosophy of safeguarding our underwriting performance by seeking profit ahead of growth.

Ansvar Australia
Our Australian business reported an underwriting loss of Aus$2.2m giving a COR of 106.7% (2015: Aus$0.2m profit, COR of 99.4%). The business was affected, for a second consecutive year, by a higher than average number of catastrophe events which was an issue for the whole Australian market. However, the reinsurance arrangements in place reduced the impact of these at the net level.

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

GWP grew by 0.3% in local currency to Aus$76.4m (2015: Aus$76.2m). Retention rates remained very strong, and new business was 21% ahead of the prior year.

Canada
Canada continued its track record of delivering growth, reporting a 5% increase in GWP in the year in local currency. The branch's contribution to GWP increased to Can$81.8m (2015: Can$77.9m).

The territory was affected by large property losses from the Fort McMurray wildfire in Alberta and two severe weather catastrophe events. Our Canadian business reported an overall underwriting loss of Can$6.2m giving a COR of 110.3% (2015: Can$1.9m profit, COR of 96.4%). Liability reserves were strengthened during the year to take account of adverse claims development, but overall, the liability account returned a profit in line with expectations.

Other insurance operations
General insurance profits were reduced slightly by development of prior accident years from our businesses in run-off, resulting in an overall loss of £0.3m (2015: £0.8m profit).

Investments
Investment returns, which fell sharply after the EU referendum result, rebounded strongly in the second half of 2016 to end the year at £55.4m (2015: £48.8m).

This investment performance reflects the rise in UK stock markets, in December, to an historic high and the positive effect of the low pound on the value of our overseas investments held both directly and indirectly through collective investment schemes.

The small and mid-cap bias in our equity portfolio dampened returns in 2016. The weakness of the pound following the Brexit vote provided a favourable tailwind for the larger-cap international dollar-earners of the FTSE 100 where total returns of 19% were achieved. By contrast, the more UK domestically focused FTSE 250 only achieved 6%.

Falling bond yields in 2016 had a positive effect on the values of longer dated bonds. The shorter duration of our bond investments resulted in underperformance relative to the broader FTSE Allstock index, and reflects the Group's strategy of favouring capital protection over marginal increases in returns. When measured against the shorter duration FTSE Gilts 0-5yrs index of 2.6%, our fixed income portfolio returns of 3.2% were slightly ahead.

Our direct property investments outperformed the broader Investment Property Databank (IPD) All Properties index over the year, returning 4.7%. This was, in part, due to its greater exposure to the industrial property segment which outperformed the office and retail segments. The portfolio's limited exposure to the weak Central London property market was also beneficial.

The downward movement in yields also reduced the discount rate applied in calculating the present value of certain longtail general business insurance liabilities. The change in discount rate on those liabilities resulted in a £7.7m loss being recognised within investment returns (2015: £2.3m profit).

The investment result includes £1.3m in respect of our long-term insurance business performance which is discussed later in this report. A £12.2m profit on the bond portfolio backing the non-profit fund (2015: £0.9m loss) was partly offset by a £10.9m loss (2015: £1.9m profit) from the impact of the change in discount rate on the long-term business liability.

Investment management
The Group's investment management business, EdenTree, saw a moderate reduction in pre-tax profits to £1.6m (2015: £1.8m). The result reflects continued strategic investment in the brand, and in technology, as the business targets increased traction with wealth managers, discretionary fund managers and the institutional end of the market.

The asset management sector as a whole has seen significant outflows of funds over the course of 2016 with the result of the EU referendum and US election, plus the continued weakness in Asia and Emerging markets, contributing to sentiment for much of the year. While EdenTree saw net outflows to its funds of £28m (2015: £15m net inflow) overall, its funds for charity investors grew by 11%. Total funds under management grew 5.9% to £2.5bn (2015: £2.3bn), despite the net outflows, as asset values pushed higher towards the end of the year.

Long-term insurance
The long-term insurance result for 2016 was a loss of £0.7m (2015: £1.0m profit). Ecclesiastical Life Limited is closed to new business and the expected favourable run-off of the business during the year was more than offset by the long-term impact of increased compliance costs with Solvency II.

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

In 2016, SEIB recovered well from the disruption in the prior year, caused by the transition of one scheme to another provider, reporting a rise in profit before tax to £2.4m (2015: £2.2m).

Lycetts' profit before tax fell slightly to £2.6m in 2016 (2015: £2.8m) as significant focus was made on investing in IT infrastructure and the development of staff. Migrating the business to one common broking platform and the commitment to Treating Customers Fairly should ensure that excellent customer service is delivered, promoting a return to growth in future years.

EFAS continues to focus on its core independent financial advisory business and, with effect from 1 February 2016, EFAS ceased to take on new funeral plan administration customers. All funeral plan business from that date is now administered by EPSL, which was acquired by Ecclesiastical Insurance Group plc during the year. EPSL's principal activity is the distribution and administration of funeral plans and its intention is to continue distributing funeral plans through funeral directing firms that are members of the National Association of Funeral Directors, whilst remaining alert to opportunities that will enable plan sales to grow as a result of developing relationships with suitable distribution partners. EFAS reported a small loss before tax of £0.3m in the year (2015: £0.3m loss), with EPSL breaking even.

Overall, our broking and advisory business delivered a decreased pre-tax profit of £0.7m (2015: £3.7m profit) as Group level goodwill relating to Lycetts Holdings Limited was impaired during the year.

Expert, dedicated people
Ecclesiastical's achievements would not be possible without the expertise and dedication of our employees. Their determination to go the extra mile for customers, business partners and good causes is inspirational, and I would like to take the opportunity to thank every one of them.

The specialism of our expert teams is distinctive – for example, we have a substantial in-house risk management team in the UK and are proud to continue to hold Chartered Insurer status across our UK businesses and in Ireland.

We have done much to strengthen our senior management team over the last three years and in 2016 augmented our Group Management Board further with three new directors responsible for compliance, strategy and brand and communications.

Diversity in its broadest sense is respected and welcomed across our Group, and we aim to be at the forefront of best practice in this area. As such, in the UK, we became a founding signatory of the Women in Finance Charter, an initiative to promote gender balance at all levels across the financial services sector.

Transparency on abuse claims
We have previously reported on the techniques used to ensure we are reserved appropriately for latent claims of physical and sexual abuse (PSA) against our customers, and our approach has been shown to be prudent over recent years.

In 2016, as the UK's Independent Inquiry into Child Sexual Abuse (IICSA) started its investigations, we took the decision to make public our longstanding approach to handling PSA claims, in order to give transparency to our customers and to the victims and survivors of abuse.

In May 2016, we published our guiding principles on handling PSA claims, the first such principles to be published by a UK insurer. The guidelines and our claims handing approach have secured favourable comment from claimant lawyers, both on publication and at IICSA's first seminars on the civil justice system which we were invited to attend. We encourage other insurers to follow suit.

Looking forward to 2020
While his time as chairman of the Ecclesiastical Board has been short, Edward Creasy's contribution has been wide-ranging and considerable and he leaves the Group with the thanks of all associated with it. We are grateful for his support and commitment over recent years, and for leading us successfully through a time of significant achievement and change.

In the last three years, we have implemented a Group-wide change programme, restructured our Group and strengthened key disciplines, exited loss-making business and acquired new businesses and, most importantly, strengthened the quality and solidity of our underlying income so that we can look to the future with confidence and optimism.

Our strategy – to be the most trusted and ethical company in our chosen markets – remains consistent and serves us well, and we have now enhanced this with a new and ambitious vision for the period to 2020:

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

STRATEGIC REPORT

The launch of this refreshed vision, supported by a new change programme, marks the next chapter in our transformation. This will be underpinned by substantial strategic investment, particularly in new systems and technologies that will make us more efficient and agile, allowing us to offer even better value for money and deliver on our promise to customers. We will also continue to invest in our people, to strengthen and deepen our expertise and seek to acquire businesses, teams and individuals who fit our group values and share our aspirations.

Our capital position remains strong and we are well placed to weather continuing market volatility and currency instability, supported by our unique ownership which allows us to take a long-term view and ride out periods of market turbulence. In this context, we are alive to the long-term risks that our defined benefit pension scheme brings and intend to continue our practice of periodic reviews in consultation with others, seeking to balance interests all round.

We expect the insurance market to remain highly competitive but are confident that we can continue to confront such challenges successfully, thanks to our specialist expertise, our reputation and our focus on doing the right thing for our customers. Our consistent results over the past three years are testament to this success.

Our financial strength, ethical approach and specialist teams are the bedrock on which we will continue to build our business.

Working together for the greater good
With one transformative charitable target achieved and another ahead of us, we remain energised and inspired to work together for our customers and for the good of society as a whole.

As we embark on our next challenge, I would like to thank our customers, our business partners and our employees for helping us to achieve our charitable goal. Thank you for working with and trusting us to do the right thing. For those of you who are considering working with or for us, I would urge you to talk to us and experience the 'Ecclesiastical difference' first-hand. We welcome the opportunity to work with people who share our vision and want to make a difference to those in need.

As I look back at the achievements of the past year and forward to the exciting future that we are working towards, I am reminded of the quotation shared at our Service of Thanksgiving last June:

"Do all the good you can, by all the means you can, in all the ways you can, at all the times you can, to all the people you can, as long as you can."

These words are John Wesley's but they describe what has always driven Ecclesiastical. I am confident that by continuing to do the right thing for our customers, our business partners and our communities, we will meet our challenging new target, building a financial Group that is the most trusted and ethical in its markets. A Group that is formed from a unique blend of business, charity and faith. A Group that sets the standard for doing business differently. A Group that, instead of paying big corporate dividends, gives in all the ways it can to help as many as it can.

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

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

By order of the Board

Mark Hews
Group Chief Executive, Ecclesiastical Insurance Group plc
25 April 2017

DIRECTORS' REPORT

Principal activity
The principal activity of the Company is that of an investment holding company. Its principal subsidiary is Ecclesiastical Insurance Office plc (EIO). That company heads a group which operates principally as a provider of general insurance in addition to offering a range of financial services, with offices in the UK and Ireland, Canada and Australia. A list of the main subsidiary undertakings is given on page 67.

Ownership
At 24 April 2017 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. David Henderson was appointed as a non-executive director of the Company on 20 April 2016. Andrew McIntyre was appointed as a non-executive director of the Company on 4 April 2017. Edward Creasy resigned as a director on 31 March 2017. On that date, Mr Hylands succeeded Mr Creasy as chairman.

All directors that have served since the last Annual General Meeting (AGM), with the exception of Edward Creasy, David Henderson and Andrew McIntyre, will be proposed for re-election at the forthcoming AGM. David Henderson and Andrew McIntyre will 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 2016. There has been no change in these interests since the end of the financial year to the date of this report.

The following directors of the Company, and their connected persons, held Preference shares in the capital of EIO plc at 31 December 2016:

Director	Nature of Interest	Number of EIO Non-Cumulative Irredeemable Preference Shares held	
		31.12.2016	**31.12.2015**
Mark Hews	Connected person	75,342	75,342

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

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

Dividends
The directors do not recommend the payment of a dividend for the year ended 31 December 2016 (2015: £nil).

Charitable and political donations
Charitable donations paid and provided for by the Group in the year amounted to £24.7 million (2015: £20.6 million).

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 of employees for alternative work who become disabled, to promote their career development within the organisation.

Remuneration policy
The Group's approach to executive director and wider employee remuneration is based on the common set of principles set out in the Group's Remuneration Policy. However, given the size of the Group and the range of its operations, the manner in which these principles are implemented varies with seniority and, where appropriate, with the nature of the business transacted by a Group entity and the individual regulatory requirements applying thereto.

All employees of the Group are entitled to a salary, benefits, pension and annual bonus. However, remuneration for executive directors is more heavily weighted towards variable rewards, through a higher annual bonus opportunity and participation in the Group long-term incentive plan. Such variable remuneration is conditional on the achievement of performance targets that are linked to the successful delivery of the Group Strategy. The greater weighting towards variable remuneration thereby aligns the interests of executive directors with those of shareholders.

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

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

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

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

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

A code of conduct and a code of ethics are embedded into the culture of the Group and are accessible to all staff via the intranet.

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

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

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

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

DIRECTORS' REPORT

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

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

The Group has considerable financial resources: financial investments of £872.3m, 94% of which are liquid (2015: financial investments of £848.2m, 94% liquid); cash and cash equivalents of £112.7m and no bank borrowings (2015: cash and cash equivalents of £125.7m and no bank borrowings). Liquid financial investments consist of listed equities and open-ended investment companies, government bonds and listed debt. The Group also has a strong risk management framework and solvency position, and has proved resilient to stress testing. As a consequence, the directors have a reasonable expectation that the Group is well placed to manage its business risks successfully and continue in operational existence for at least twelve months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

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

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

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

Non-audit work
The Group 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 gives best value for money. The policy is shared with the external auditor of the Group. Adherence to the policy and non-audit fees incurred is regularly reviewed by the Group Audit Committee.

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

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

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

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

DIRECTORS' REPORT

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

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.

- The Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

- The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

By order of the Board

Mark Hews
Group Chief Executive, Ecclesiastical Insurance Group plc
25 April 2017

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 2016 which comprise the Consolidated Statement of Profit or Loss, the Consolidated and Parent Statement of Comprehensive Income, the Consolidated and Parent Statement of Changes in Equity, the Consolidated and Parent Statement of Financial Position, the Consolidated and Parent Statement of Cash Flows and the related notes 1 to 38. 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 we consider the implications for our report.

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 2016 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.

Paul R. Stephenson

Paul Stephenson BA FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
25 April 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the year ended 31 December 2016

	Notes	2016 £000	*Restated ** 2015 £000
Revenue			
Gross written premiums	5, 6	336,844	308,199
Outward reinsurance premiums	6	(140,747)	(113,115)
Net change in provision for unearned premiums	6	1,103	4,677
Net earned premiums		197,200	199,761
Fee and commission income		74,801	71,286
Other operating income		843	7
Net investment return	7	55,408	48,770
Total revenue		328,252	319,824
Expenses			
Claims and change in insurance liabilities	8	(168,221)	(168,055)
Reinsurance recoveries	8	80,002	66,822
Fees, commissions and other acquisition costs	9	(61,208)	(60,593)
Other operating and administrative expenses		(116,877)	(101,293)
Total operating expenses		(266,304)	(263,119)
Operating profit		61,948	56,705
Finance costs		(101)	(101)
Profit before tax	5	61,847	56,604
Tax expense	13	(9,299)	(7,597)
Profit for the year	10	52,548	49,007
Attributable to:			
Equity holders of the Parent		43,444	39,826
Non-controlling interests		9,104	9,181
		52,548	49,007

* The impact of discount rate changes on insurance contract liabilities has been presented within net investment return for the first time in the current year. In the prior year the impact was included in claims and change in insurance liabilities, and reinsurance recoveries. The comparative financial statements have been restated to the revised basis, detailed in note 37.

CONSOLIDATED AND PARENT STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2016

	2016		2015	
	Group	Parent	Group	Parent
	£000	£000	£000	£000
Profit for the year	52,548	3,046	49,007	1,077
Other comprehensive income				
Items that will not be reclassified to profit or loss:				
Fair value gains on property	-	-	105	-
Losses on retirement benefit plans	(34,996)	-	(4,811)	-
Attributable tax	5,849	-	826	-
	(29,147)	-	(3,880)	-
Items that may be reclassified subsequently to profit or loss:				
Gains/(losses) on currency translation differences	13,482	-	(6,461)	-
Gains on net investment hedges	2,067	-	-	-
Attributable tax	(223)	-	-	-
	15,326	-	(6,461)	-
Net other comprehensive income	(13,821)	-	(10,341)	-
Total comprehensive income	38,727	3,046	38,666	1,077
Attributable to:				
Equity holders of the Parent	29,623	3,046	29,485	1,077
Non-controlling interests	9,104	-	9,181	-
	38,727	3,046	38,666	1,077

CONSOLIDATED AND PARENT STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

	Attributable to equity holders of the Parent							
Group	Share capital £000	Equalisation reserve £000	Revaluation reserve £000	Translation and hedging reserve £000	Retained earnings £000	Total £000	Non-controlling interests £000	Total equity £000
At 1 January 2016	**20,000**	**24,957**	**571**	**6,182**	**369,872**	**421,582**	**106,450**	**528,032**
Profit for the year	-	-	-	-	***43,444***	***43,444***	***9,104***	***52,548***
Other net income/(expense)	-	-	***5***	***15,326***	***(29,152)***	***(13,821)***	-	***(13,821)***
Total comprehensive income	-	-	**5**	**15,326**	**14,292**	**29,623**	**9,104**	**38,727**
Acquisition of non-controlling interest	-	-	-	-	**(632)**	**(632)**	**(1,600)**	**(2,232)**
Dividends	-	-	-	-	-	-	**(9,104)**	**(9,104)**
Gross charitable grant	-	-	-	-	**(24,000)**	**(24,000)**	-	**(24,000)**
Tax relief on charitable grant	-	-	-	-	**4,800**	**4,800**	-	**4,800**
Reserve transfers	-	**(24,957)**	-	-	**24,957**	-	-	-
At 31 December 2016	**20,000**	-	**576**	**21,508**	**389,289**	**431,373**	**104,850**	**536,223**
At 1 January 2015	20,000	25,299	541	12,643	349,564	408,047	106,450	514,497
Profit for the year	-	-	-	-	*39,826*	*39,826*	*9,181*	*49,007*
Other net income/(expense)	-	-	*127*	*(6,461)*	*(4,007)*	*(10,341)*	-	*(10,341)*
Total comprehensive income	-	-	127	(6,461)	35,819	29,485	9,181	38,666
Dividends	-	-	-	-	-	-	(9,181)	(9,181)
Gross charitable grant	-	-	-	-	(20,000)	(20,000)	-	(20,000)
Tax relief on charitable grant	-	-	-	-	4,050	4,050	-	4,050
Reserve transfers	-	(342)	(97)	-	439	-	-	-
At 31 December 2015	20,000	24,957	571	6,182	369,872	421,582	106,450	528,032
Parent								
At 1 January 2016	**20,000**	-	-	-	**14,357**	**34,357**		
Total comprehensive income attributable to equity holders	-	-	-	-	**3,046**	**3,046**		
At 31 December 2016	**20,000**	-	-	-	**17,403**	**37,403**		
At 1 January 2015	20,000	-	-	-	13,274	33,274		
Total comprehensive income attributable to equity holders	-	-	-	-	1,077	1,077		
Group tax relief in excess of standard rate	-	-	-	-	6	6		
At 31 December 2015	20,000	-	-	-	14,357	34,357		

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

The revaluation reserve represents cumulative net fair value gains on owner-occupied property. Further details of the translation and hedging reserve are included in note 27.

Retained earnings of the Group includes a specific non-distributable reserve of a subsidiary amounting to £4,200,000 (2015: £4,200,000).

CONSOLIDATED AND PARENT STATEMENT OF FINANCIAL POSITION

for the year ended 31 December 2016

	Notes	2016 Group £000	2016 Parent £000	Restated * 2015 Group £000	Restated * 2015 Parent £000
Assets					
Goodwill and other intangible assets	17	**55,579**	**-**	59,157	-
Deferred acquisition costs	18	**30,705**	**-**	28,394	-
Deferred tax assets	31	**3,075**	**-**	2,138	-
Pension assets	19	**144**	**-**	10,893	-
Property, plant and equipment	20	**9,606**	**-**	8,646	-
Investment property	21	**125,284**	**-**	98,750	-
Financial investments	22	**872,295**	**57,118**	848,197	53,368
Reinsurers' share of contract liabilities	29	**256,384**	**-**	170,740	-
Current tax recoverable		**1,400**	**-**	331	-
Other assets	24	**123,125**	**870**	110,754	127
Cash and cash equivalents	25	**112,717**	**3,357**	125,669	796
Total assets		**1,590,314**	**61,345**	1,463,669	54,291
Equity					
Share capital	26	**20,000**	**20,000**	20,000	20,000
Retained earnings and other reserves		**411,373**	**17,403**	401,582	14,357
Equity attributable to equity holders of the Parent		**431,373**	**37,403**	421,582	34,357
Non-controlling interests	28	**104,850**	**-**	106,450	-
Total equity		**536,223**	**37,403**	528,032	34,357
Liabilities					
Insurance contract liabilities	29	**883,504**	**-**	790,690	-
Borrowings		**1,417**	**23,458**	1,431	19,458
Provisions for other liabilities	30	**6,226**	**-**	4,066	-
Pension liabilities	19	**24,896**	**-**	2,337	-
Retirement benefit obligations	19	**11,913**	**-**	9,193	-
Deferred tax liabilities	31	**29,281**	**433**	34,471	348
Current tax liabilities		**4,179**	**-**	3,667	-
Deferred income		**15,862**	**-**	15,532	-
Other liabilities	32	**76,813**	**51**	74,250	128
Total liabilities		**1,054,091**	**23,942**	935,637	19,934
Total equity and liabilities		**1,590,314**	**61,345**	1,463,669	54,291

* For the Group and Parent, the comparative financial statements have been restated to reflect a reclassification of cash and cash equivalents to financial investments, detailed in note 37.

The financial statements of Ecclesiastical Insurance Group plc, registered number 1718196, on pages 13 to 72 were approved and authorised for issue by the Board of Directors on 25 April 2017 and signed on its behalf by:

Mark Hews
Group Chief Executive

CONSOLIDATED AND PARENT STATEMENT OF CASH FLOWS

for the year ended 31 December 2016

	Notes	2016 Group £000	2016 Parent £000	Restated * 2015 Group £000	Restated * 2015 Parent £000
Profit before tax		61,847	3,069	56,604	1,192
Adjustments for:					
Depreciation of property, plant and equipment		1,957	-	1,883	-
Revaluation of property, plant and equipment		(25)	-	(175)	-
Loss on disposal of property, plant and equipment		26	-	16	-
Amortisation and impairment of intangible assets		5,391	-	2,427	-
Loss on disposal of intangible assets		-	-	11	-
Net fair value gains on financial instruments and investment property		(34,921)	(692)	(8,830)	(1,058)
Dividend and interest income		(31,697)	(2,694)	(30,140)	(390)
Finance costs		101	267	101	235
Adjustment for pension funding		877	-	755	-
Changes in operating assets and liabilities:					
Net decrease in insurance contract liabilities		(2,407)	-	(15,193)	-
Net increase in reinsurers' share of contract liabilities		(15,806)	-	(17,068)	-
Net (increase)/decrease in deferred acquisition costs		(124)	-	1,754	-
Net (increase)/decrease in other assets		(6,405)	(563)	(6,350)	118
Net (decrease)/increase in operating liabilities		(1,611)	49	13,732	-
Net increase in other liabilities		1,634	-	803	-
Cash (used)/generated by operations		(21,163)	(564)	330	97
Purchases of financial instruments and investment property		(203,932)	-	(103,333)	-
Sale of financial instruments and investment property		219,446	-	127,420	-
Dividends received		8,355	2,375	9,101	386
Interest received		20,615	4	23,686	2
Interest paid		(101)	(267)	(101)	(235)
Tax (paid)/recovered		(5,335)	62	(7,291)	81
Net cash from operating activities		17,885	1,610	49,812	331
Cash flows from investing activities					
Purchases of property, plant and equipment		(2,466)	-	(2,739)	-
Proceeds from the sale of property, plant and equipment		45	-	264	-
Purchases of intangible assets		(454)	-	(1,850)	-
Acquisition of interest in subsidiary		(816)	(3,059)	-	-
Disposal of businesses, net of cash transferred		-	-	5,260	-
Net cash (used by)/from investing activities		(3,691)	(3,059)	935	-
Cash flows from financing activities					
Payment of finance lease liabilities		(368)	-	(331)	-
Proceeds from other borrowings		-	4,000	-	-
Payment of group tax relief in excess of standard rate		-	6	-	-
Dividends paid to non-controlling interests of subsidiaries		(9,104)	-	(9,181)	-
Donations paid to ultimate parent undertaking		(24,000)	-	(20,000)	-
Net cash used by financing activities		(33,472)	4,006	(29,512)	-
Net (decrease)/increase in cash and cash equivalents		(19,278)	2,557	21,235	331
Cash and cash equivalents at beginning of year		125,669	796	107,789	462
Exchange gains/(losses) on cash and cash equivalents		6,326	4	(3,355)	3
Cash and cash equivalents at end of year	25	112,717	3,357	125,669	796

* For the Group and Parent, the comparative financial statements have been restated to reflect a reclassification of cash and cash equivalents to financial investments, detailed in note 37.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

Ecclesiastical Insurance Group plc (hereafter referred to as the 'Company', or 'Parent'), a public limited company incorporated and domiciled in England, together with its subsidiaries (collectively, the 'Group') operates principally as a provider of general insurance and in addition offers a range of financial services, with offices in the UK & Ireland, Australia and Canada. The principal accounting policies adopted in preparing the 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 2016 issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU). The financial statements have been prepared on the historical cost basis, except for the revaluation of properties and certain financial instruments.

A review of the Group's business activities is provided within the Strategic Report. In addition, notes 3 and 4 to the financial statements disclose the Group's principal risks and uncertainties, including exposures to insurance and financial risk and the Group's objectives for managing capital. The Group has considerable financial resources: financial investments of £872.3m, 94% of which are liquid (2015: financial investments of £848.2m, 94% liquid); cash and cash equivalents of £112.7m and no bank borrowings (2015: cash and cash equivalents of £125.7m and no bank borrowings). Liquid financial investments consist of listed equities and open-ended investment companies, government bonds and listed debt. The Group also has a strong risk management framework and solvency position, and has proved resilient to stress testing. As a consequence, the directors have a reasonable expectation that the Group is well placed to manage its business risks successfully and continue in operational existence for at least twelve months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

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

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

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

New and revised Standards

The Standards adopted in the current year are either outside the scope of Group transactions or do not materially impact the Group.

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

Standard	Key requirements	Expected impact on financial statements	Effective date
IFRS 9, *Financial Instruments*	Provides a new model for the classification and measurement of financial instruments, a single, forward-looking 'expected loss' impairment model and a reformed approach to hedge accounting.	It is expected that equity instruments will continue to be measured at fair value through profit or loss. There is a possibility that the measurement of certain debt instruments will change to amortised cost or fair value through other comprehensive income, although this is being assessed and depends on the conclusion of the IASB's ongoing insurance accounting project. No changes are expected from the more principles-based hedge accounting requirements.	Annual periods beginning on or after 1 January 2018. Although can be deferred until 2021 for insurers (subject to EU endorsement).
IFRS 15, *Revenue from Contracts with Customers*	Establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.	Insurance contracts are outside the scope of the Standard. The impact on non-insurance fee and commission income is being assessed. There is the possibility of commission income being recognised earlier if a contract is approved and consideration is probable. Variable consideration will be recognised earlier if receipt is considered highly probable.	Annual periods beginning on or after 1 January 2018.
IFRS 16, *Leases*	Provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the term is 12 months or less or the underlying asset has a low value.	The Group is currently assessing the full impact of IFRS 16. As operating leases (as disclosed in note 33) are in place for the majority of the Group's offices, these changes will significantly increase the value of both assets and liabilities recognised in the financial statements. There is not expected to be a significant impact on profit or loss.	Annual periods beginning on or after 1 January 2019 (subject to EU endorsement).

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

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

Use of estimates

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

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 International Accounting Standard (IAS) 27, *Separate Financial Statements*.

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

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

Associates

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

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, along with the corresponding movement on net investment hedges, and are recognised in the statement of profit or loss as part of the gain or loss on sale.

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

Product classification

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

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.

Long-term insurance business

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

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

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

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

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

Fee and commission income

Fee and commission income consists primarily of reinsurance commissions receivable in addition to income from the Group's insurance broking activities, sale and administration of funeral plans, investment fund management fees, distribution fees from mutual funds and commission revenue from the sale of mutual fund shares. 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. Management fees charged in respect of funeral plans are only refundable where the plan is cancelled within 30 days, and are recognised in full when the plan is sold with provision being made for the expected level of cancellations that give rise to a refund.

Other operating income

Other operating income consists of the return of reserves from a reinsurance scheme and income arising from a lease transfer.

Net investment return

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

The impact of discount rate changes on insurance contract liabilities has also been included within net investment for the first time in the current year. The prior period has been restated for the retrospective application of the change in accounting policy, detailed in note 37.

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.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

Insurance contract liabilities

General insurance provisions

(i) Outstanding claims provisions

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

(ii) Provision for unearned premiums

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

(iii) Liability adequacy

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

Long-term business provisions

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

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

Reinsurance

General insurance business

The Group assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance assumed are recognised as revenue in the same manner as direct business. Outwards reinsurance premiums are accounted for in the same accounting period as the related premiums for the direct or inwards reinsurance business being reinsured. Estimates are included for premiums not notified by the year end and provision is made for the anticipated lapse of renewals not yet confirmed. The proportion of premiums ceded in a year which relates to periods of risk extending beyond the current year is carried forward as unearned.

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

Long-term business

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

Intangible assets

Goodwill

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

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

Computer software

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

Property, plant and equipment

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

Land is not depreciated. No depreciation is provided on owner-occupied properties since such depreciation would be immaterial. Depreciation is calculated 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	4 years straight line or 27% reducing balance
Fixtures, fittings and office equipment	3 - 10 years or length of lease straight line

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

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

Investment property

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

Financial instruments

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

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

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

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

The 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, held for trading or hedge accounted derivatives) 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 that are not accounted for as a net investment hedge or are acquired principally for the purpose of selling in the near term.

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

Loans and receivables

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

Derivative financial instruments

Derivative financial instruments and hedging

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

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

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

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

Derivative instruments for hedging of net investments in foreign operations

On the date a foreign exchange contract is entered into, the Group designates certain contracts as a hedge of a net investment in a foreign operation (net investment hedge) and hedges the forward foreign currency rate.

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

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

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

Deferred acquisition costs

General insurance business

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

Long-term business

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

Cash and cash equivalents

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

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

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

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

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

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

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

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

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

For defined benefit plans, the pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to profit or loss so as to spread the regular cost over the service lives of employees, 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 the present value economic benefits of available in the form of refunds from the plan or reductions in future employer contributions to the plan.

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

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

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

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

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

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

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

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

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. Dividends on Non-Cumulative Irredeemable Preference shares are recognised in the period in which they are declared and appropriately approved.

Charitable grant to ultimate parent undertaking

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

Use of Alternative Performance Measures (APM)

The Group uses certain key performance indicators which, although not defined under IFRS, provide useful information and aim to enhance understanding of the Group's performance. The key performance indicators should be considered complementary to, rather than a substitute for, financial measures defined under IFRS. Note 38 provides details of how these key performance indicators reconcile to the results reported under IFRS.

2 Critical accounting estimates and judgements in applying accounting policies

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

(a) 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, including the discount rate applied in assessing lump sums, which may apply retrospectively;
- the way in which certain reinsurance contracts (principally liability) will be interpreted in relation to unusual/latent claims where aggregation of claimants and exposure over time are issues; and
- whether all such reinsurances will remain in force over the long term.

The uncertainties surrounding the estimates of claims payments for the various classes of business are discussed further in note 3, and where discount rates have been applied these are disclosed in note 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 business from the sale of funeral plans is dependent on estimates made by the Group.

Where the Group's liability under the funeral plan is linked to inflation, estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to risk. The Group bases these estimates on standard industry and national mortality tables, adjusted to reflect recent historical mortality experience of the Group's portfolio, with allowance also being made for expected future mortality improvements where prudent. The estimated mortality rates are used to determine forecast benefit payments net of forecast premium receipts.

Estimates are also made as to future investment returns arising from the assets backing life assurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

(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 expense inflation. Any changes in these assumptions will impact profit or loss and may affect planned funding of the pension plans. The effect of movements in the actuarial assumptions during the year on the pension and other post-employment liabilities is recognised in other comprehensive income. An explanation of the actuarial losses recognised in the current year is included in note 19. The Group determines an appropriate discount rate at the end of each year, to be used to determine the present value of estimated future cash outflows expected to be required to settle the pension and other post-employment benefit obligations.

In determining the appropriate discount rate, the Group considers 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 expense inflation is determined by comparing the historical relationship of medical expense increases over a portfolio of UK-based post-retirement medical plans with the rate of inflation, making an allowance for the size of the plan and actual medical expense experience. Other key assumptions for the pension and post-employment benefit costs and credits are based in part on current market conditions.

Additional information including the sensitivity of pension and post-employment medical benefit scheme liabilities to changes in the key assumptions is disclosed in note 19.

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

(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 17.

(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 of equities held prior to 2002. Gains on these assets are only recognised for tax purposes when sold. An estimate has to be made of the tax rate that would be applicable at the point of sale in order to determine the tax liability relating to the gain, applying tax rates substantively enacted at the balance sheet date.

(f) Unlisted equity securities

The value of unlisted equity securities requires the Group to make judgements in respect of the most appropriate valuation technique to apply and the inputs used in the technique. The inputs require judgement in terms of the price-to-book ratio chosen, illiquidity discount and credit rating discount. Further details, including the sensitivity of the valuation to these inputs, are shown in note 4 (b).

3 Insurance risk

Through its general and long-term insurance operations, the Group is exposed to a number of risks, as summarised in the Risk Management Report of the Strategic Report in the accounts of Ecclesiastical Insurance Office plc. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount and timing of the resulting claim. Factors such as the business and product mix, the external environment including market competition and reinsurance capacity all may vary from year to year, along with the actual frequency, severity and ultimate cost of claims and benefits. This subjects the Group to underwriting and pricing risk (the risk of failing to ensure disciplined risk selection and achieve the required premium), claims reserving risk (the risk of actual claims payments exceeding the amount we are holding in reserves) and reinsurance risk (the risk of failing to access and manage reinsurance capacity at a reasonable price).

(a) Risk mitigation

Statistics demonstrate that the larger and more diversified the portfolio of insurance contracts, the smaller the relative variability in the expected outcome will be. The Group's underwriting strategy is designed to ensure that the underwritten risks are well diversified in terms of type and amount of risk and geographical spread. In all operations pricing controls are in place, underpinned by sound statistical analysis, market expertise and appropriate external consultant advice. Gross and net underwriting exposure is protected through the use of a comprehensive programme of reinsurance using both proportional and non-proportional reinsurance, supported by proactive claims handling. The overall reinsurance structure is regularly reviewed and modelled to ensure that it remains optimum to the Group's needs. The optimum reinsurance structure provides the Group with sustainable, long-term capacity to support its specialist business strategy, with effective balance sheet and profit and loss protection at a reasonable cost.

Catastrophe protection is purchased following an extensive annual modelling exercise of gross and net (of proportional reinsurance) exposures. In conjunction with reinsurance brokers the Group utilises the full range of proprietary catastrophe models and continues to develop bespoke modelling options that better reflect the specialist nature of the portfolio. Reinsurance is arranged to cover up to a 1/250 loss, which increases to a 1/500 loss where earthquake risk exists.

(b) Concentrations of risk

The core business of the Group is general insurance, with the principal classes of business written being property and liability. The miscellaneous financial loss class of business covers personal accident, fidelity guarantee and loss of money, profits and licence. The other class of business includes cover of legal expenses and also a small portfolio of motor policies, but this is in run off in the United Kingdom since November 2012. The Group's whole-of-life assurance policies support funeral planning products. These classifications have changed in 2016 in line with how the business looks at the classes of business under Solvency II, with the prior year restated.

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

Group		General insurance				Long-term business	
				Miscellaneous financial			Total £000
		Property	Liability	loss	Other	Funeral plans	£000
Territory		£000	£000	£000	£000	£000	£000
2016							
United Kingdom and Ireland	Gross	**156,083**	**50,152**	**14,000**	**2,546**	**26,783**	**249,564**
	Net	**84,843**	**47,713**	**9,040**	**550**	**77**	**142,223**
Australia	Gross	**23,112**	**16,769**	**1,105**	**824**	**-**	**41,810**
	Net	**3,091**	**14,459**	**1,065**	**817**	**-**	**19,432**
Canada	Gross	**31,159**	**14,311**	**-**	**-**	**-**	**45,470**
	Net	**21,057**	**13,385**	**-**	**-**	**-**	**34,442**
Total	Gross	**210,354**	**81,232**	**15,105**	**3,370**	**26,783**	**336,844**
	Net	**108,991**	**75,557**	**10,105**	**1,367**	**77**	**196,097**
2015							
United Kingdom and Ireland	Gross	162,401	49,380	16,351	2,596	113	230,841
	Net	89,062	46,480	11,370	621	113	147,646
Australia	Gross	20,708	15,062	1,131	550	-	37,451
	Net	1,936	12,993	1,089	545	-	16,563
Canada	Gross	28,194	11,713	-	-	-	39,907
	Net	19,995	10,880	-	-	-	30,875
Total	Gross	211,303	76,155	17,482	3,146	113	308,199
	Net	110,993	70,353	12,459	1,166	113	195,084

(c) General insurance risks

Property classes

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

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

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

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

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

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

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

Liability classes

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

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

The frequency and severity of claims arising on liability insurance contracts, including the liability element of motor contracts, can be affected by several factors. Most significant are the increasing level of awards for damages suffered, legal costs and the potential for periodic payment awards.

The severity of bodily injury claims can be influenced by the value of loss of earnings and the future cost of care. The settlement value of claims arising under public and employers' liability is particularly difficult to predict. There is often uncertainty as to the extent and type of injury, whether any payments will be made and, if they are, the amount and timing of the payments, including the discount rate applied for assessing lump sums. On 27 February 2017, the Lord Chancellor and Secretary of State for Justice made an announcement in relation to decreasing the Ogden discount rate from 2.5% to -0.75% which affected the discount rate applied. The impact of this change is detailed in note 36. 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, during which time there can be particular uncertainty as to the number of future potential claims and their cost. The Group has reflected this uncertainty and believes that it holds adequate reserves for latent claims that may result from exposure periods up to the reporting date.

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

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

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

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

4 Financial risk and capital management

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

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

(a) Categories of financial instruments

	Financial assets				Financial liabilities			
Group	Designated at fair value £000	Held for trading £000	Loans and receivables* £000	Hedge accounted derivatives £000	Held for trading £000	Financial liabilities** £000	Other assets and liabilities £000	Total £000
At 31 December 2016								
Financial investments	**857,435**	**2,974**	**9,819**	**2,067**	**-**	**-**	**-**	**872,295**
Other assets	**-**	**-**	**119,402**	**-**	**-**	**-**	**3,723**	**123,125**
Cash and cash equivalents	**-**	**-**	**112,717**	**-**	**-**	**-**	**-**	**112,717**
Borrowings	**-**	**-**	**-**	**-**	**-**	**-**	**(1,417)**	**(1,417)**
Other liabilities	**-**	**-**	**-**	**-**	**(543)**	**(68,300)**	**(7,970)**	**(76,813)**
Net other	**-**	**-**	**-**	**-**	**-**	**-**	**(493,684)**	**(493,684)**
Total	**857,435**	**2,974**	**241,938**	**2,067**	**(543)**	**(68,300)**	**(499,348)**	**536,223**
At 31 December 2015 (restated)								
Financial investments	837,747	713	9,737	-	-	-	-	848,197
Other assets	-	-	107,306	-	-	-	3,448	110,754
Cash and cash equivalents	-	-	125,669	-	-	-	-	125,669
Borrowings	-	-	-	-	-	-	(1,431)	(1,431)
Other liabilities	-	-	-	-	(1,466)	(67,743)	(5,041)	(74,250)
Net other	-	-	-	-	-	-	(480,907)	(480,907)
Total	837,747	713	242,712	-	(1,466)	(67,743)	(483,931)	528,032
Parent								
At 31 December 2016								
Financial investments	**5,778**	**-**	**-**	**-**	**-**	**-**	**51,340**	**57,118**
Other assets	**-**	**-**	**870**	**-**	**-**	**-**	**-**	**870**
Cash and cash equivalents	**-**	**-**	**3,357**	**-**	**-**	**-**	**-**	**3,357**
Borrowings	**-**	**-**	**-**	**-**	**-**	**(23,458)**	**-**	**(23,458)**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**(51)**	**-**	**(51)**
Net other	**-**	**-**	**-**	**-**	**-**	**-**	**(433)**	**(433)**
Total	**5,778**	**-**	**4,227**	**-**	**-**	**(23,509)**	**50,907**	**37,403**
At 31 December 2015								
Financial investments	5,086	-	-	-	-	-	48,282	53,368
Other assets	-	-	127	-		-	-	127
Cash and cash equivalents	-	-	796	-	-	-	-	796
Borrowings	-	-	-	-	-	(19,458)	-	(19,458)
Other liabilities	-	-	-	-	-	(128)	-	(128)
Net other	-	-	-	-	-	-	(348)	(348)
Total	5,086	-	923	-	-	(19,586)	47,934	34,357

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

** Financial liabilities are held at amortised cost.

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

As described in note 37, the comparative period has been restated for cash held on deposit, which has been reclassified from cash and cash equivalents to financial investments.

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

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

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

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

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

Analysis of fair value measurement bases	**Fair value measurement at the end of the reporting period based on**			
Group	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
At 31 December 2016				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	262,459	267	41,155	303,881
Debt securities	551,539	1,876	139	553,554
Derivatives	-	2,974	-	2,974
Hedged accounted derivatives	-	2,067	-	2,067
Total financial assets at fair value	813,998	7,184	41,294	862,476
At 31 December 2015				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	274,293	221	36,304	310,818
Debt securities	524,453	2,289	187	526,929
Derivatives	-	713	-	713
Total financial assets at fair value	798,746	3,223	36,491	838,460
Parent				
At 31 December 2016				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	-	-	5,778	5,778
Total financial assets at fair value	-	-	5,778	5,778
At 31 December 2015				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	-	-	5,086	5,086
Total financial assets at fair value	-	-	5,086	5,086

The derivative liabilities of the Group are measured at fair value through profit or loss and categorised as level 2 (see note 23).

Fair value measurements based on level 3

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

	Financial assets at fair value through profit and loss		
Group	Equity securities £000	Debt securities £000	Total £000
At 31 December 2016			
Opening balance	36,304	187	36,491
Total gains/(losses) recognised in profit or loss	4,851	(48)	4,803
Closing balance	41,155	139	41,294
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	4,851	(48)	4,803
At 31 December 2015			
Opening balance	24,377	238	24,615
Total gains/(losses) recognised in profit or loss	6,204	(51)	6,153
Purchases	5,723	-	5,723
Closing balance	36,304	187	36,491
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	6,204	(51)	6,153
Parent			
At 31 December 2016			
Opening balance	5,086	-	5,086
Total gains recognised in profit or loss	692	-	692
Closing balance	5,778	-	5,778
Total gains for the period included in profit or loss for assets held at the end of the reporting period	692	-	692
At 31 December 2015			
Opening balance	4,028	-	4,028
Total gains recognised in profit or loss	1,058	-	1,058
Closing balance	5,086	-	5,086
Total gains for the period included in profit or loss for assets held at the end of the reporting period	1,058	-	1,058

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

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

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

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

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

The valuation is most sensitive to the level of underlying net assets, the euro exchange rate, the price-to-book ratio chosen, an illiquidity discount and a credit rating discount applied to the valuation to account for the risks associated with holding the asset. If the price-to-book ratio, illiquidity discount and credit rating discount applied changes by +/-10%, the value of unlisted equity securities could move by +/-£5m (2015: +/-£4m).

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

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

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

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

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

Interest rate risk concentration is reduced by adopting asset-liability duration matching principles where appropriate. Excluding assets held to back the long-term business, the average duration of the Group's fixed income portfolio is two years (2015: two years), reflecting the relatively short-term average duration of its general insurance liabilities. The mean term of discounted general insurance liabilities is disclosed in note 29 (a) part (iv).

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

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

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

	Maturity			
Group long-term business	Within 1 year £000	Between 1 & 5 years £000	After 5 years £000	Total £000
At 31 December 2016				
Assets				
Debt securities	9,359	20,578	77,580	107,517
Cash and cash equivalents	4,680	-	-	4,680
	14,039	20,578	77,580	112,197
Liabilities (discounted)				
Gross long-term business provision	13,548	46,576	122,228	182,352
Ceded long-term business provision	(7,359)	(24,764)	(58,329)	(90,452)
Net long-term business provision	6,189	21,812	63,899	91,900
At 31 December 2015				
Assets				
Debt securities	6,065	23,119	67,572	96,756
Cash and cash equivalents	2,648	-	-	2,648
	8,713	23,119	67,572	99,404
Liabilities (discounted)				
Long-term business provision	6,354	21,976	57,092	85,422

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

(d) Credit risk

The Group has exposure to credit risk, which is the risk of non-payment of their obligations by counterparties and financial markets borrowers. Areas where the Group is exposed to credit risk are:

- reinsurers' share of general 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 value of whole-of-life assurance policies, purchased by the Group from independent, third party, life insurance companies, to meet the Group's obligations in respect of funeral plans sold

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

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

There has been no significant change in the recoverability of the Group's general business reinsurance balances during the year with all reinsurers on the 2016 reinsurance programme having a minimum rating of 'A-' from Standard & Poor's or an equivalent rating from a similar agency at the time of purchase.

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

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 that are in turn monitored via credit reference agencies and considered to pose minimal risk of default. The Group has no material concentration of credit risk in respect of amounts due from insurance intermediaries and policyholders due to the well-diversified spread of such debtors.

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	2016 £000	2015 £000
UK	**373,984**	381,087
Australia	**83,961**	73,429
Canada	**72,353**	52,350
Europe	**23,256**	15,876
Other	**-**	4,187
Total	**553,554**	526,929

(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 when considered necessary.

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

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

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

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

In the current year, the Group has designated certain derivatives as a hedge of its net investments in Canada and Australia, which have Canadian and Australian dollars respectively as their functional currency. The forward foreign currency risk arising on translation of these foreign operations is hedged by the derivatives which are detailed in note 23.

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

	2016			2015	
	Group	**Parent**		Group	Parent
	£000	**£000**		£000	£000
Aus $	**48,728**	**-**	Aus $	45,530	-
Can $	**38,592**	**-**	Can $	32,544	-
Euro	**38,661**	**5,778**	Euro	25,213	5,193
USD $	**848**	**-**	USD $	3,289	-
Japanese Yen	**603**	**-**	NZ $	2,130	-

The figures in the table above, for the current and prior years, do not include currency risk that the Group is exposed to on a 'look through' basis in respect of collective investment schemes denominated in Sterling. In the current year, the Group entered into derivatives to hedge currency exposure, including exposures on a 'look through' basis. The open derivatives held by the Group at the year end to hedge currency exposure are detailed in note 23.

(g) Equity price risk

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

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

	2016			2015	
	Group	Parent		Group	Parent
	£000	£000		£000	£000
UK	257,856	-	UK	269,724	-
Europe	41,150	5,778	Europe	36,526	5,086
Canada	3,085	-	Canada	2,257	-
US	1,585	-	US	2,139	-
Other	205	-	Other	172	-
Total	303,881	5,778	Total	310,818	5,086

(h) Market risk sensitivity analysis

The sensitivity of profit and other equity reserves to movements on market risk variables (comprising interest rate, currency and equity price risk), each considered in isolation and before the mitigating effect of derivatives, is shown in the table below. This table does not include the impact of variables on retirement benefit schemes. Financial risk sensitivities for retirement benefit schemes are disclosed separately in note 19.

Group		Potential increase/ (decrease) in profit		Potential increase/ (decrease) in other equity reserves	
Variable	Change in variable	2016 £000	2015 £000	2016 £000	2015 £000
Interest rate risk	-100 basis points	(8,570)	(6,377)	122	(29)
	+100 basis points	4,699	2,154	(139)	29
Currency risk	-10%	4,491	4,195	8,453	7,052
	+10%	(3,674)	(3,433)	(6,916)	(5,770)
Equity price risk	+/-10%	24,310	24,788	-	-

Parent		Potential increase/ (decrease) in profit		Potential increase/ (decrease) in other equity reserves	
Variable	Change in variable	2016 £000	2015 £000	2016 £000	2015 £000
Currency risk	-10%	514	460	-	-
	+10%	(420)	(377)	-	-
Equity price risk	+/-10%	462	406	-	-

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

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

(i) Capital management

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

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

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

With effect from 1 January 2016 a new Europe-wide regulatory capital regime (Solvency II) came into effect, with capital assessed at both individual regulated entity and group level. The PRA expects a firm, at all times, to hold Solvency II Own Funds in excess of its calculated Solvency Capital Requirement (SCR). Both quarterly and annual quantitative returns are submitted to the PRA, in addition to an annual narrative report, the Solvency and Financial Condition Report (SFCR) which must be published on the company website. A further report, the Regular Supervisory Report (RSR) is periodically submitted to the PRA.

The figures in the table below are unaudited and based on the latest information provided to management. These figures will be subject to a separate independent audit, as part of the Group's process for Solvency II reporting to the PRA. Final audited figures will be made publicly available in the SFCR. The Group expects to meet the deadline for submission to the PRA of 1 July 2017 and its SFCR will be made available on the Group's website shortly thereafter.

	(unaudited) 2016 £000	2015 £000
Solvency II Own Funds	455,470	457,685
Solvency Capital Requirement	(295,388)	(291,323)
Own Funds in excess of Solvency Capital Requirement	160,082	166,362
Solvency II Capital Cover	154%	157%

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

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

5 Segment information

(a) Operating segments

The Group segments its business activities on the basis of differences in the products and services offered and, for general insurance, the underwriting territory. Expenses relating to Group management activities are included within 'Corporate costs'. This reflects the management and internal Group reporting structure. A change has been made to segments during 2016 as follows:

- The investment management operating result which was previously included as part of the 'investment' result has been reclassified to 'other'.

The prior period has been restated to the revised basis.

The activities of each operating segment are described below.

- General business

United Kingdom and Ireland

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

Australia

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

Canada

The Group operates a general insurance Ecclesiastical branch in Canada.

Other insurance operations

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

- Investment management

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

- Broking and Advisory

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

- Long-term insurance business

The Group markets and sells pre-paid plans through Ecclesiastical Planning Services Limited.

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

- Corporate costs

This includes costs associated with Group management activities.

- Other activities

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

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

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

5 Segment information (continued)

Segment revenue

The Group uses gross written premiums as the measure for turnover of the general and long-term insurance business segments. Turnover of the non-insurance segments comprises fees and commissions earned in relation to services provided by the Group to third parties. Segment revenues do not include net investment return or general business fee and commission income, which are reported within revenue in the consolidated statement of profit or loss.

	2016 Gross written premiums £000	2016 Non-insurance services £000	2016 Total £000	2015 Gross written premiums £000	2015 Non-insurance services £000	2015 Total £000
General business						
United Kingdom and Ireland	220,342	-	220,342	228,056	-	228,056
Australia	41,810	-	41,810	37,451	-	37,451
Canada	45,470	-	45,470	39,907	-	39,907
Other insurance operations	2,439	-	2,439	2,672	-	2,672
Total	310,061	-	310,061	308,086	-	308,086
Long-term business	26,783	-	26,783	113	-	113
Investment management	-	10,227	10,227	-	11,394	11,394
Broking and Advisory	-	29,613	29,613	-	27,870	27,870
Group revenue	336,844	39,840	376,684	308,199	39,264	347,463

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

Segment result

General business segment results comprise the insurance underwriting profit or loss, investment activities and other expenses of each underwriting territory. The Group uses the industry standard net combined operating ratio (COR) as a measure of underwriting efficiency. The COR expresses the total of net claims costs, commission and underwriting expenses as a percentage of net earned premiums. Further details on the underwriting profit or loss and COR, which are alternative performance measures that are not defined under IFRS, are detailed in note 38.

The long-term business segment result comprises the profit or loss on insurance contracts (including return on assets backing liabilities in the long-term fund), shareholder investment return and other expenses.

All other segment results consist of the profit or loss before tax measured in accordance with IFRS.

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

NOTES TO THE FINANCIAL STATEMENTS

5 Segment information (continued)

2015 (restated)	*Combined operating ratio*	Insurance £000	Investments £000	Other £000	Total £000
General business					
United Kingdom and Ireland	92.3%	11,571	37,575	(5)	49,141
Australia	99.4%	104	1,994	(96)	2,002
Canada	96.4%	1,066	1,041	-	2,107
Other insurance operations		792	-	-	792
	93.2%	13,533	40,610	(101)	54,042
Long-term business		1,001	2,157	-	3,158
Investment management		-	-	1,812	1,812
Broking and Advisory		-	-	3,738	3,738
Corporate costs		-	-	(7,341)	(7,341)
Other activities		-	1,195	-	1,195
Profit/(loss) before tax		14,534	43,962	(1,892)	56,604

The prior period has been restated for the retrospective application of the change in accounting policy, as detailed in note 37.

(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:

	2016		2015	
	Gross written premiums £000	**Non-current assets £000**	Gross written premiums £000	Non-current assets £000
United Kingdom and Ireland	**249,564**	**188,482**	230,841	165,216
Australia	**41,810**	**1,445**	37,451	190
Canada	**45,470**	**3,789**	39,907	3,154
	336,844	**193,716**	308,199	168,560

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 2016			
Gross written premiums	310,061	26,783	336,844
Outward reinsurance premiums	(114,041)	(26,706)	(140,747)
Net written premiums	196,020	77	196,097
Change in the gross provision for unearned premiums	2,926	-	2,926
Change in the provision for unearned premiums, reinsurers' share	(1,823)	-	(1,823)
Change in the net provision for unearned premiums	1,103	-	1,103
Earned premiums, net of reinsurance	197,123	77	197,200
For the year ended 31 December 2015			
Gross written premiums	308,086	113	308,199
Outward reinsurance premiums	(113,115)	-	(113,115)
Net written premiums	194,971	113	195,084
Change in the gross provision for unearned premiums	3,889	-	3,889
Change in the provision for unearned premiums, reinsurers' share	788	-	788
Change in the net provision for unearned premiums	4,677	-	4,677
Earned premiums, net of reinsurance	199,648	113	199,761

7 Net investment return

	2016 £000	Restated 2015 £000
Income from financial assets at fair value through profit or loss		
- equity income	10,091	9,106
- debt income	17,682	20,510
Income from financial assets not at fair value through profit or loss		
- interest income on mortgages and other loans	-	26
- cash and cash equivalents income, net of exchange movements	3,682	(352)
- other income received	1,257	1,412
Other income		
- rental income	6,387	4,996
Investment income	39,099	35,698
Fair value movements on financial instruments at fair value through profit or loss	36,037	3,985
Fair value movements on investment property	(1,116)	4,845
Impact of discount rate change on insurance contract liabilities	(18,612)	4,242
Net investment return	55,408	48,770

Included within cash and cash equivalents income are exchange gains of £2,995,000 (2015: £1,421,000 losses).

Included within fair value movements on financial instruments at fair value through profit or loss are £681,000 losses (2015: £2,133,000 gains) in respect of derivative instruments.

As described in note 37, the impact of discount rate changes on insurance contract liabilities has been reclassified from claims and change in insurance liabilities (see note 8) to net investment return, with the comparative period being restated to the revised basis.

8 Claims and change in insurance liabilities and reinsurance recoveries

	General business £000	Long-term business £000	Total £000
For the year ended 31 December 2016			
Gross claims paid	**184,763**	**11,617**	**196,380**
Gross change in the provision for claims	**(47,073)**	**(84)**	**(47,157)**
Gross change in long-term business provisions	**-**	**18,998**	**18,998**
Claims and change in insurance liabilities	**137,690**	**30,531**	**168,221**
Reinsurers' share of claims paid	**(64,907)**	**(5,363)**	**(70,270)**
Reinsurers' share of change in the provision for claims	**13,743**	**-**	**13,743**
Reinsurers' share of change in long-term business provisions	**-**	**(23,475)**	**(23,475)**
Reinsurance recoveries	**(51,164)**	**(28,838)**	**(80,002)**
Claims and change in insurance liabilities, net of reinsurance	**86,526**	**1,693**	**88,219**
For the year ended 31 December 2015 (restated)			
Gross claims paid	167,364	6,899	174,263
Gross change in the provision for claims	809	3	812
Gross change in long-term business provisions	-	(7,020)	(7,020)
Claims and change in insurance liabilities	168,173	(118)	168,055
Reinsurers' share of claims paid	(50,721)	-	(50,721)
Reinsurers' share of change in the provision for claims	(16,101)	-	(16,101)
Reinsurance recoveries	(66,822)	-	(66,822)
Claims and change in insurance liabilities, net of reinsurance	101,351	(118)	101,233

As described in note 37, the impact of discount rate changes on insurance contract liabilities has been reclassified from claims and change in insurance liabilities to net investment return (see note 7), with the comparative period being restated to the revised basis.

9 Fees, commissions and other acquisition costs

	2016 £000	2015 £000
Fees paid	**740**	665
Commission paid	**45,592**	44,477
Change in deferred acquisition costs	**(124)**	1,754
Other acquisition costs	**15,000**	13,697
Fees, commissions and other acquisition costs	**61,208**	60,593

10 Profit for the year

	2016 £000	2015 £000
Profit for the year has been arrived at after (crediting)/charging		
Net foreign exchange (gains)/losses	(2,995)	1,421
Depreciation of property, plant and equipment	1,957	1,883
Loss on disposal of property, plant and equipment	26	16
Amortisation of intangible assets	2,314	2,363
Impairment of goodwill	3,077	64
Decrease/(increase) in fair value of investment property	1,116	(4,845)
Employee benefits expense including termination benefits	82,881	75,072
Operating lease rentals	3,994	3,772

11 Auditor's remuneration

	2016 £000	2015 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	16	15
Fees payable to the Company's auditor and its associates for other services:		
- The audit of the Company's subsidiaries	498	463
Total audit fees	514	478
- Audit-related assurance services	281	86
- Other assurance services	7	6
Total non-audit fees	288	92
Fees payable to the Company's auditor in respect of associated pension schemes		
- The audit of assoicated pension schemes	17	17
Total auditor's remuneration	819	587

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

12 Employee information

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

	2016 General business No.	2016 Long-term business No.	2016 Other No.	2015 General business No.	2015 Long-term business No.	2015 Other No.
United Kingdom and Ireland	727	1	379	709	1	361
Australia	87	-	-	92	-	-
Canada	71	-	-	68	-	-
	885	1	379	869	1	361

	2016 £000	2015 £000
Wages and salaries	68,587	61,787
Social security costs	6,663	5,553
Pension costs - defined contribution plans	3,485	3,096
Pension costs - defined benefit plans	3,127	3,181
Other post-employment benefits	346	459
	82,208	74,076

The above figures do not include termination benefits of £673,000 (2015: £996,000).

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

	2016 £000	2015 £000
Salaries and other short-term employee benefits	2,545	2,304
Long-term cash incentive	700	396
Post-employment benefits	136	122
	3,381	2,822

Directors' remuneration includes amounts paid in Canadian dollars. An average exchange rate of 1.7991 Canadian dollars to 1 GBP has been used in respect of the current and prior year.

Post-employment benefits includes £49,000 (2015: £76,000) in respect of contributions to a defined contribution scheme. The prior year has been restated for the effects of exchange.

No directors who were employed by Ecclesiastical Insurance Office plc were members of the Group's defined benefit pension scheme during the year (2015: no directors). Three directors (2015: three) were members of the Group's defined contribution scheme during the year.

		2016 £000	2015 £000
Highest paid director	- emoluments	1,370	1,089
	- money purchase pension contributions	-	-
Chairman's fees *		116	68

* Mr Creasy was appointed to the Board on 10 February 2016 and was appointed as Chairman of the Group on 16 March 2016. Mr Creasy resigned on 31 March 2017.

13 Tax expense

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

		2016 £000	2015 £000
Current tax	- current year	9,319	8,321
	- prior years	84	385
Deferred tax	- temporary differences	1,281	2,610
	- prior years	-	2
	- reduction in tax rate	(1,385)	(3,721)
Total tax expense		9,299	7,597

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:

	2016 £000	2015 £000
Profit before tax	61,847	56,604
Tax calculated at the UK standard rate of tax of 20% (2015: 20.25%)	12,369	11,461
Factors affecting charge for the year:		
Expenses not deductible for tax purposes	1,413	873
Non-taxable income	(2,867)	(1,272)
Long-term insurance and other tax paid at non-standard rates	(377)	72
Generation/(utilisation) of tax losses for which no deferred tax asset has been recognised	62	(203)
Impact of reduction in deferred tax rate	(1,385)	(3,721)
Adjustments to tax charge in respect of prior periods	84	387
Total tax expense	9,299	7,597

A change in the UK standard rate of corporation tax from 21% to 20% became effective from 1 April 2015. Where appropriate, current tax has been provided at a rate of 20% for the current year and at the blended rate of 20.25% for the prior year. A further reduction in the rate of corporation tax to 19% will become effective from April 2017, reducing again to 17% effective from April 2020. Deferred tax has been provided at an average rate of 17.6% (2015: 18.5%).

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

	2016 £000	2015 £000
Current tax charged on		
Fair value movements on hedge derivatives	204	-
Deferred tax (credited)/charged on:		
Fair value movements on property	(5)	(22)
Actuarial movements on retirement benefit plans	(5,844)	(804)
Fair value movements on hedge derivatives	19	-
Total tax credited to other comprehensive income	(5,626)	(826)

Tax relief on charitable grants of £4,800,000 (2015: £4,050,000) are taken directly to equity.

14 Appropriations

	2016 £000	2015 £000
Charitable grants		
Gross charitable grants to the ultimate parent company, Allchurches Trust Limited	24,000	20,000
Tax relief	(4,800)	(4,050)
Net appropriation for the year	19,200	15,950

15 Acquisition of subsidiary

Ecclesiastical Insurance Group plc (EIG plc) acquired NAFD Services Limited (which was re-named Ecclesiastical Planning Services Limited (EPSL) after acquisition) in January 2016 following the National Association of Funeral Directors (NAFD's) decision to put the business up for sale. The Group had provided a full administration service for this business since 2006 and wished to continue to operate in this growing market. EPSL's intention is to continue distributing funeral plans through funeral directing firms that are members of NAFD whilst remaining alert to opportunities that will enable plan sales to grow as a result of developing relationships with suitable distribution partners.

EIG plc paid a total consideration, including costs, of £126,000 to acquire EPSL. The identifable net liabilities of EPSL at acquisition were £587,000. Goodwill of £713,000 has been recognised at group level.

EIG plc subsequently subscribed to a further 700,000 shares in EPSL, which were issued at £1 nominal value.

16 Disposal of business

On 20 January 2015, Ecclesiastical Financial Advisory Services Limited entered into an agreement to transfer its mortgage business to Holmesdale Building Society. The transfer was completed on 1 February 2015.

	2015 £000
The net assets at the date of disposal were:	
Financial investments	6,084
Consideration and costs of sale:	
Cash received	(5,260)
Contingent consideration arrangement	(824)
Sale costs and related net expenses	19
Total tax credited to other comprehensive income	19

The net cash inflow arising on disposal was £5,260,000.

In 2015, the fair value of the contingent consideration was estimated to be £824,000, with the final amount payable being dependent on the development of the mortgage book over the 7 years after disposal. At 31 December 2016, £194,000 of the contingent consideration had been received.

17 Goodwill and other intangible assets

Group	Goodwill £000	Computer software £000	Other intangible assets £000	Total £000
Cost				
At 1 January 2016	56,303	20,509	16,727	93,539
Additions	713	454	-	1,167
Disposals	-	(1,012)	-	(1,012)
Exchange differences	-	796	-	796
At 31 December 2016	57,016	20,747	16,727	94,490
Accumulated impairment losses and amortisation				
At 1 January 2016	9,695	15,882	8,805	34,382
Amortisation charge for the year	-	1,185	1,129	2,314
Impairment losses for the year	3,077	-	-	3,077
Disposals	-	(1,012)	-	(1,012)
Exchange differences	-	150	-	150
At 31 December 2016	12,772	16,205	9,934	38,911
Net book value at 31 December 2016	44,244	4,542	6,793	55,579
Cost				
At 1 January 2015	56,303	20,886	16,727	93,916
Additions	-	1,850	-	1,850
Disposals	-	(1,799)	-	(1,799)
Exchange differences	-	(428)	-	(428)
At 31 December 2015	56,303	20,509	16,727	93,539
Accumulated impairment losses and amortisation (restated)				
At 1 January 2015	9,631	16,562	7,676	33,869
Amortisation charge for the year	-	1,234	1,129	2,363
Impairment losses for the year	64	-	-	64
Disposals	-	(1,788)	-	(1,788)
Exchange differences	-	(126)	-	(126)
At 31 December 2015	9,695	15,882	8,805	34,382
Net book value at 31 December 2015	46,608	4,627	7,922	59,157

£20,032,000 of the goodwill balance in the current and prior year relates to the acquisition of Lycetts Holdings Limited during 2011. £16,885,000 of the goodwill balance in the current and prior year relates to the acquisition of South Essex Insurance Holdings Limited during 2008. £4,392,000 of the goodwill balance in the current and prior year relates to the acquisition of Lansdown Insurance Brokers Limited during 2014.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. The calculations for all recoverable amounts use cash flow projections based on management-approved business plans, covering a three-year period, with forecast annual cash flows at the end of the planning period continuing thereafter in perpetuity at the UK long-term average growth rate, usually sourced from the Office for Budget Responsibility (OBR). An update to the long-term rate has not been provided by the OBR since the June 2016 EU referendum result so the Group selected a rate of 1.9% (2015: 2.3%) as being appropriate, based on medium-term rates published in the OBR's November report. The pre-tax discount rate of 11.3% (2015: 11%) reflects the way that the market would assess the specific risks associated with the estimated cash flows.

The recoverable amount, determined on a value in use basis, indicated that an impairment of £3,000,000 arose in the year of the goodwill relating to Lycetts Holdings Limited, as forecasted cash flows fell below the level required to maintain the valuation. The goodwill in respect of Lycetts Holdings Limited is now equal to the recoverable amount and therefore any adverse change in key assumptions would result in further impairment. Lycetts Holdings Limited is included within the Broking and Advisory segment (see note 5).

The recoverable amount of the investment in South Essex Insurance Holdings Limited exceeds its carrying amount by £2.4m. If the cash flow projections decreased by 2.3% or the discount rate increased by 0.7%, then the recoverable amount would equal the carrying amount. For the investment in Lansdown Insurance Brokers Limited, the headroom above the carrying value is significant and reasonably possible changes to the key assumptions do not result in impairment.

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

Other intangible assets consist of acquired brand, customer and distribution relationships. £5,979,000 of the intangible assets balance in the current year relates to the acquisition of Lycetts Holdings Limited and has a remaining useful life of six years (2015: seven years).

18 Deferred acquisition costs

Group	2016 £000	2015 £000
At 1 January	**28,394**	31,117
Increase in the period	**29,756**	28,626
Release in the period	**(29,632)**	(30,380)
Exchange differences	**2,187**	(969)
At 31 December	**30,705**	28,394

All balances are current.

19 Retirement benefit schemes

Defined benefit pension plans

The Group's main plan is a defined benefit plan operated by the Parent for UK employees, which includes two discrete sections, the EIO Section and Ansvar Section. 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 2013. Actuarial valuations were reviewed and updated by an actuary at 31 December 2016 for IAS 19 (R) purposes. In the prior year, the IAS 19 (R) surplus in the scheme was restricted in accordance with International Financial Reporting Interpretations Committee 14 (IFRIC 14). Lycetts Holdings Limited also operates a defined benefit plan. Actuarial valuations were reviewed and updated by an actuary at 31 December 2015 for IAS 19 (R) purposes.

In the current year, actuarial losses arising from changes in financial assumptions of £71.3m (2015: actuarial gains of £5.9m) have been recognised in the statement of other comprehensive income. These losses resulted from a 1.2% fall in the discount rate and a 0.2% increase in inflation, partially offset by gains arising from the changes in financial assumptions noted below.

In line with common market practice, an allowance has been made in the current year for the future volatility in inflation when setting the inflation assumption for the Group's main plan. This has resulted in a reduction in the plan's liabilities by approximately £20m which is recognised within the statement of other comprehensive income. No allowance for inflation volatility was made in the prior year.

Ecclesiastical Insurance Office plc (EIO) has a constructive obligation to award discretionary pension increases in the EIO Section for service prior to 6 April 1997. In setting the assumption for discretionary pension increases in the IAS 19 valuation, consideration is given to the expectations around future increases in light of the plan's circumstances at the balance sheet date. This approach has been formalised in the current year through the development of a sliding scale to determine the discretionary pension increase assumption. In the current year the discretionary pension increase assumption fell to 0.8% (2015: 2.1%) which reduced the value of the plan's liabilities by approximately £9m.

EIO is also the sponsoring employer for the Ecclesiastical Insurance Office plc Pension and Life Assurance Scheme (EIOPLA). This is a defined benefit scheme that has been closed to new entrants since 1 July 1998, providing benefits to pensioners of Methodist Insurance Plc, a company with a similar culture and whose insurance risks, excluding terrorism, are fully reinsured by the Parent. The assets of the scheme are held separately from those EIO.

In the prior year, formal notice was given to the Trustees of EIOPLA to wind up the defined benefit pension scheme. The wind-up formally commenced on 1 July 2015. On 18 December 2015, the scheme's defined benefit obligations were discharged, resulting in £nil obligations at the current and prior year end date. The wind-up is expected to complete in the first half of 2017. In the current and prior year, the IAS 19 (R) surplus in the scheme has been restricted in line with IFRIC 14 to the amount of surplus that is expected to be refunded to EIO when the scheme wind-up is completed.

19 Retirement benefit schemes (continued)

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

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

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

The Group's main defined benefit plan is now closed to new entrants but remains open to future accrual. The Group operates a number of defined contribution pension plans, for which contributions by the Group are disclosed in note 12.

Group	2016 £000	2015 £000
The amounts recognised in the statement of financial position are determined as follows:		
Present value of funded obligations	(363,854)	(287,206)
Fair value of plan assets	339,246	303,045
	(24,608)	15,839
Restrictions on asset recognised	(144)	(7,283)
Net asset in the statement of financial position	(24,752)	8,556
Movements in the net asset recognised in the statement of financial position are as follows:		
At 1 January	8,556	17,774
Expense charged to profit or loss*	(3,826)	(3,791)
Amounts recognised in other comprehensive income	(32,431)	(8,463)
Contributions paid	2,949	3,036
At 31 December	(24,752)	8,556
The amounts recognised through profit or loss are as follows:		
Current service cost	3,709	3,985
Administration cost	488	375
Interest expense on liabilities	10,795	10,634
Interest income on plan assets	(11,435)	(11,358)
Effect of interest on the asset ceiling	269	-
Losses on settlements/curtailments	-	155
Total, included in employee benefits expense	3,826	3,791
The amounts recognised in the statement of other comprehensive income are as follows:		
Return on plan assets, excluding interest income	28,550	(8,832)
Experience gains on liabilities	2,739	758
Gains from changes in demographic assumptions	158	428
(Losses)/gains from changes in financial assumptions	(71,286)	5,903
Change in asset ceiling	7,408	(6,720)
Total included in other comprehensive income	(32,431)	(8,463)

* Charge to profit or loss includes £699,000 (2015: £610,000) in respect of member salary sacrifice contributions and costs ultimately borne by related parties.

19 Retirement benefit schemes (continued)

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

	2016 £000	2015 £000
Pension assets	144	10,893
Pension liabilities	(24,896)	(2,337)
	(24,752)	8,556

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

	2016 %	2015 %
Discount rate	2.60	3.80
Inflation (RPI)	3.30	3.10
Inflation (CPI)	2.30	2.10
Future salary increases	4.47	4.52
Future increase in pensions in deferment	2.34	2.14
Future average pension increases (linked to RPI)	3.00	3.10
Future average pension increases (linked to CPI)	1.15	2.10

Mortality rate	2016	2015
The average life expectancy in years of a pensioner retiring at age 65, at the year end date, is as follows:		
Male	24.0	24.0
Female	25.6	25.6
The average life expectancy in years of a pensioner retiring at age 65, 20 years after the year end date, is as follows:		
Male	26.3	26.3
Female	27.9	27.8

Plan assets are weighted as follows:	2016 £000	2015 £000
Cash and cash equivalents	17,838	8,705
Equity instruments		
UK quoted	85,057	73,465
UK unquoted	179	275
Overseas quoted	82,656	69,226
	167,892	142,966
Debt instruments		
UK public sector quoted - fixed interest	263	6,381
UK non-public sector quoted - fixed interest	68,527	59,603
UK quoted - index-linked	38,812	42,530
	107,602	108,514
Derivative financial instruments	2,143	(564)
Property	42,121	41,960
Other	1,650	1,464
	339,246	303,045

The actual return on plan assets was a gain of £39,985,000 (2015: gain of £2,526,000).

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

	2016 £000	2015 £000
Plan assets		
At 1 January	303,045	310,048
Interest income	11,435	11,358
Return on plan assets, excluding interest income	28,550	(8,832)
Pension benefits paid and payable	(6,529)	(10,333)
Contributions paid	2,949	3,036
Administration cost	(204)	(33)
Assets distributed on settlements	-	(2,199)
At 31 December	339,246	303,045
Defined benefit obligation		
At 1 January	287,206	291,711
Current service cost	3,709	3,985
Administration cost	284	342
Interest cost	10,795	10,634
Pension benefits paid and payable	(6,529)	(10,333)
Experience gains on liabilities	(2,739)	(758)
Gains from changes in demographic assumptions	(158)	(428)
Losses/(gains) from changes in financial assumptions	71,286	(5,903)
Liabilities extinguished on settlements/curtailments	-	(2,044)
At 31 December	363,854	287,206
Asset ceiling		
At 1 January	7,283	563
Effect of interest on the asset ceiling	269	-
Change in asset ceiling	(7,408)	6,720
At 31 December	144	7,283

History of plan assets and liabilities	2016 £000	2015 £000	2014 £000	2013 £000	2012 £000
Present value of defined benefit obligations	(363,854)	(287,206)	(291,711)	(270,813)	(239,268)
Fair value of plan assets	339,246	303,045	310,048	303,359	275,638
	(24,608)	15,839	18,337	32,546	36,370
Restrictions on asset recognised	(144)	(7,283)	(563)	(978)	-
Surplus	(24,752)	8,556	17,774	31,568	36,370

The weighted average duration of the defined benefit obligation at the end of the reporting period is 23 years (2015: 23 years).

The contribution expected to be paid by the Group during the year ending 31 December 2017 is £2.8 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**	**Increase/(decrease) in plan liabilities** 2016 £000	2015 £000
Discount rate	Increase by 0.5%	(37,468)	(29,438)
	Decrease by 0.5%	41,711	34,691
Inflation	Increase by 0.5%	33,959	28,829
	Decrease by 0.5%	(26,586)	(26,043)
Salary increase	Increase by 0.5%	10,660	7,690
	Decrease by 0.5%	(9,840)	(6,960)
Life expectancy	Increase by 1 year	10,031	7,779
	Decrease by 1 year	(10,361)	(8,109)

Post-employment medical benefits

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

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

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

- Medical expense inflation risk: Future medical costs are influenced by a number of factors including economic trends and advances in medical technology and sciences. An increase in medical expense inflation would lead to an increase in the reserves required to be held.

- Medical claims experience: Claims experience can be volatile, exposing the Group to the risk of being required to pay over and above the assumed reserve. If future claims experience differs significantly from that experienced in previous years this will increase the risk to the Group.

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

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

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

	2016 £000	2015 £000
Present value of unfunded obligations and net obligations in the statement of financial position	11,913	9,193
Movements in the net obligations recognised in the statement of financial position are as follows:		
At 1 January	9,193	12,547
Total expense charged to profit or loss	346	459
Net actuarial losses/(gains) during the year, recognised in other comprehensive income	2,565	(3,652)
Benefits paid	(191)	(161)
At 31 December	11,913	9,193
The amounts recognised through profit or loss are as follows:		
Interest cost	346	459
Total, included in employee benefits expense	346	459

The weighted average duration of the net obligations at the end of the reporting period is 18.5 years (2015: 19 years).

The main actuarial assumptions for the plan are a long-term increase in medical costs of 9.3% (2015: 9.1%) and a discount rate of 2.6% (2015: 3.8%). The sensitivity analysis below has been determined based on reasonably possible changes in the assumptions occurring at the end of the accounting period assuming that all other assumptions are held constant.

Assumption	**Change in assumption**	**Increase/(decrease) in plan liabilities** 2016 £000	2015 £000
Discount rate	Increase by 0.5%	(1,006)	(776)
	Decrease by 0.5%	1,143	882
Medical expense inflation	Increase by 0.5%	2,224	1,716
	Decrease by 0.5%	(1,781)	(1,374)
Life expectancy	Increase by 1 year	1,028	793
	Decrease by 1 year	(921)	(711)

20 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 2016	3,090	2,643	7,271	6,447	19,451
Additions	-	522	1,595	871	2,988
Disposals	-	(653)	(946)	(773)	(2,372)
Revaluation	25	-	-	-	25
Exchange differences	-	-	229	144	373
At 31 December 2016	3,115	2,512	8,149	6,689	20,465
Depreciation					
At 1 January 2016	-	1,037	4,836	4,932	10,805
Charge for the year	-	408	724	825	1,957
Disposals	-	(421)	(942)	(769)	(2,132)
Exchange differences	-	-	146	83	229
At 31 December 2016	-	1,024	4,764	5,071	10,859
Net book value at 31 December 2016	3,115	1,488	3,385	1,618	9,606
Cost or valuation					
At 1 January 2015	3,035	2,616	5,779	6,597	18,027
Additions	-	768	1,875	816	3,459
Disposals	(225)	(741)	(290)	(890)	(2,146)
Revaluation	280	-	-	-	280
Exchange differences	-	-	(93)	(76)	(169)
At 31 December 2015	3,090	2,643	7,271	6,447	19,451
Depreciation					
At 1 January 2015	-	1,125	4,541	5,028	10,694
Charge for the year	-	420	647	816	1,883
Disposals	-	(508)	(280)	(862)	(1,650)
Exchange differences	-	-	(72)	(50)	(122)
At 31 December 2015	-	1,037	4,836	4,932	10,805
Net book value at 31 December 2015	3,090	1,606	2,435	1,515	8,646

All properties were revalued at 31 December 2015, with the exception of two properties, one of which was revalued at 31 December 2014 and the other at 31 December 2016. Valuations were carried out by Cluttons LLP, an external firm of chartered surveyors, using standard industry methodology to determine a fair market value. All properties are classified as level 3 assets.

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

The value of land and buildings on a historical cost basis is £3,377,000 (2015: £3,377,000).

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

Included within net book value of motor vehicles is £1,359,000 (2015: £1,364,000) and within net book value of computer equipment is £nil (2015: £4,000) in respect of assets held under finance leases.

21 Investment property

Group	2016 £000	2015 £000
Net book value at 1 January	**98,750**	69,775
Additions - acquisitions	**27,851**	24,130
Additions - additional expenditure	**142**	-
Disposals	**(343)**	-
Fair value (losses)/gains recognised in profit or loss	**(1,116)**	4,845
Net book value at 31 December	**125,284**	98,750

The Group's investment properties were last revalued at 31 December 2016 by Cluttons LLP, 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 3 assets. There have been no transfers between investment categories in the current year.

Investment properties are held for long-term capital appreciation rather than short-term sale. Rental income arising from the investment properties owned by the Group amounted to £6,368,000 (2015: £4,996,000) and is included in net investment return. Other operating and administrative expenses include £423,000 (2015: £742,000) relating to investment property.

22 Financial investments

Financial investments summarised by measurement category are as follows:

	2016		Restated 2015	
	Group £000	**Parent £000**	Group £000	Parent £000
Financial investments at fair value				
Equity securities				
- listed	**262,726**	**-**	274,514	-
- unlisted	**41,155**	**5,778**	36,304	5,086
Debt securities				
- government bonds	**179,227**	**-**	160,691	-
- listed	**374,188**	**-**	366,051	-
- unlisted	**139**	**-**	187	-
Derivative financial instruments				
- forwards	**5,041**	**-**	-	-
- options	**-**	**-**	713	-
	862,476	**5,778**	838,460	5,086
Loans and receivables				
Cash held on deposit	**9,802**	**-**	9,721	-
Other loans	**17**	**-**	16	-
Parent investments in subsidiary undertakings				
Shares in subsidiary undertakings	**-**	**51,340**	-	48,282
Total financial investments	**872,295**	**57,118**	848,197	53,368
Current	**392,036**	**-**	418,161	-
Non-current	**480,259**	**57,118**	430,036	53,368

All investments in subsidiary undertakings are unlisted.

As described in note 37, the comparative period has been restated for cash held on deposit, which has been reclassified from cash and cash equivalents to financial investments.

23 Derivative financial instruments

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

In the current year, the Group has also formally designated certain derivatives as a hedge of its net investments in Australia and Canada. A gain of £2,067,000 (2015: £nil) in respect of these 'hedge' derivatives has been recognised in the hedging reserve within shareholders' equity, as disclosed in note 27. The Group has formally assessed and documented the effectiveness of derivatives that qualify for hedge accounting in accordance with IAS 39, *Financial Instruments: Recognition and Measurement.*

Group	2016			2015		
	Contract/ notional amount £000	**Fair value asset £000**	**Fair value liability £000**	Contract/ notional amount £000	Fair value asset £000	Fair value liability £000
Non-hedge derivatives						
Equity/Index contracts						
Futures	25,157	-	543	30,763	-	1,466
Options	-	-	-	7,501	713	-
Foreign exchange contracts						
Forwards (Euro)	78,511	2,974	-	-	-	-
Hedge derivatives						
Foreign exchange contracts						
Forwards (Australian dollar)	39,443	1,954	-	-	-	-
Forwards (Canadian dollar)	29,047	113	-	-	-	-
	172,158	5,041	543	38,264	713	1,466

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 transactions. They do not reflect current market values of the open positions.

Derivative fair value assets are recognised within financial investments (note 22) and derivative fair value liabilities are recognised within other liabilities (note 32).

Amounts pledged as collateral in respect of derivative contracts are disclosed in note 25.

24 Other assets

	2016 Group £000	2016 Parent £000	2015 Group £000	2015 Parent £000
Receivables arising from insurance and reinsurance contracts				
- due from contract holders	25,551	-	27,310	-
- due from agents, brokers and intermediaries	45,055	-	40,095	-
- due from reinsurers	15,631	-	9,481	-
Other receivables				
- accrued interest and rent	5,370	-	6,109	-
- other prepayments and accrued income	5,630	311	3,619	-
- amounts owed by related parties	70	559	114	127
- other debtors	25,818	-	24,026	-
	123,125	870	110,754	127
Current	119,880	870	108,748	127
Non-current	3,245	-	2,006	-

The Group has recognised a charge of £49,000 (2015: charge of £44,000) in other operating and administrative expenses in the statement of profit or loss for the impairment of its trade and other receivables during the year.

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

Movement in the Group allowance for doubtful debts	**2016 £000**	2015 £000
Balance at 1 January	163	214
Movement in the year	(9)	(51)
Balance at 31 December	154	163

Included within trade receivables of the Group is £6,018,000 (2015: £5,242,000) overdue but not impaired, of which £5,414,000 (2015: £4,647,000) is not more than three months overdue at the reporting date.

25 Cash and cash equivalents

	2016 Group £000	2016 Parent £000	Restated 2015 Group £000	Restated 2015 Parent £000
Cash at bank and in hand	73,478	3,357	68,403	796
Short-term bank deposits	39,239	-	57,266	-
	112,717	3,357	125,669	796

Included within short-term bank deposits of the Group are cash deposits of £1,956,000 (2015: £3,122,000) pledged as collateral by way of cash margins on open derivative contracts and cash to cover derivative liabilities.

Included within cash at bank and in hand are cash deposits of £2,612,000 (2015: £nil) pledged as collateral by way of cash calls from reinsurers.

As described in note 37, the comparative period has been restated for cash held on deposit, which has been reclassified from cash and cash equivalents to financial investments.

26 Called up share capital

	2016 £000	2015 £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.

27 Translation and hedging reserve

Group	Translation reserve £000	Hedging reserve £000	Total £000
At 1 January 2016	6,182	-	6,182
Gains on currency translation differences	13,482	-	13,482
Gains on net investment hedges	-	2,067	2,067
Attributable tax	-	(223)	(223)
At 31 December 2016	19,664	1,844	21,508
At 1 January 2015	12,643	-	12,643
Losses on currency translation differences	(6,461)	-	(6,461)
At 31 December 2016	6,182	-	6,182

28 Non-controlling interests

Non-controlling interests comprise the 8.625% Non-Cumulative Irredeemable Preference shares (NcIPs) in Ecclesiastical Insurance Office plc.

Through the course of 2016, the Parent acquired NcIPs with a nominal value of £1,600,000 for a cash consideration of £2,232,000, paid to minority interest shareholders.

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

29 Insurance liabilities and reinsurance assets

Group	2016 £000	2015 £000
Gross		
Claims outstanding	540,864	551,571
Unearned premiums	160,288	153,697
Long-term business provision	182,352	85,422
Total gross insurance liabilities	883,504	790,690
Recoverable from reinsurers		
Claims outstanding	115,179	120,753
Unearned premiums	50,753	49,987
Long-term business provision	90,452	-
Total reinsurers' share of insurance liabilities	256,384	170,740
Net		
Claims outstanding	425,685	430,818
Unearned premiums	109,535	103,710
Long-term business provision	91,900	85,422
Total net insurance liabilities	627,120	619,950
Gross insurance liabilities		
Current	319,584	321,812
Non-current	563,920	468,878
Reinsurance assets		
Current	102,151	98,967
Non-current	154,233	71,773

(a) General business insurance contracts

(i) Reserving methodology

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

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

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

(ii) Calculation of uncertainty margins

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

(iii) Calculation of provisions for latent claims

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

29 Insurance liabilities and reinsurance assets (continued)

(iv) Discounting

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

	Discount rate		Mean term of discounted liabilities	
Geographical territory	**2016**	2015	**2016**	2015
UK and Ireland	**0.7% to 2.7%**	1.0% to 3.5%	**16**	15
Canada	**1.1% to 3.1%**	1.1% to 3.2%	**14**	14
Australia	**2.5%**	2.0%	**4**	4

The above rates of interest are based on government bond yields of the relevant currency and term at the reporting date. Adjustments are made, where appropriate, to reflect portfolio assets held and to allow for future investment expenses. At the year end the undiscounted gross outstanding claims provision was £581,958,000 for the Group (2015: £603,735,000).

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

At 31 December 2016, it is estimated that a fall of 1% in the discount rates used would increase the Group's net outstanding claims provisions by £17,482,000 (2015: £14,380,000). Financial investments backing these liabilities are not hypothecated across general insurance classes of business. The sensitivity of Group profit or loss and other equity reserves to interest rate risk, taking into account the mitigating effect on asset values is provided in note 4 (h).

(v) Assumptions

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

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

(vi) Changes in assumptions

There are no significant changes in assumptions.

(vii) Sensitivity of results

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

If final settlement of 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:

		2016		2015	
		Gross	**Net**	Gross	Net
		£000	**£000**	£000	£000
Liability	- UK	**24,700**	**22,600**	26,000	24,000
	- Overseas	**10,100**	**8,600**	8,400	7,200
Property	- UK	**7,100**	**4,000**	9,300	4,700
	- Overseas	**6,500**	**2,400**	4,900	1,600
Motor	- UK	**1,500**	**700**	2,200	1,100

29 Insurance liabilities and reinsurance assets (continued)

(viii) Claims development tables

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

Group

Estimate of gross ultimate claims

	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	Total £000
At end of year	50,840	56,420	74,742	84,476	82,095	100,612	81,725	61,901	46,464	51,738	
One year later	47,307	53,552	59,807	75,550	76,371	88,046	80,027	50,571	43,582		
Two years later	43,270	47,643	55,250	62,239	71,543	78,196	69,860	48,327			
Three years later	35,510	44,658	57,134	66,422	68,587	72,516	66,192				
Four years later	35,556	40,433	55,695	61,330	60,841	67,980					
Five years later	34,925	37,546	58,631	62,074	59,914						
Six years later	34,036	37,864	54,942	61,871							
Seven years later	33,917	37,289	57,729								
Eight years later	33,028	38,014									
Nine years later	34,136										
Current estimate of ultimate claims	34,136	38,014	57,729	61,871	59,914	67,980	66,192	48,327	43,582	51,738	529,483
Cumulative payments to date	(29,757)	(32,332)	(48,145)	(49,733)	(46,668)	(43,481)	(31,943)	(9,440)	(3,949)	(1,298)	(296,746)
Outstanding liability	4,379	5,682	9,584	12,138	13,246	24,499	34,249	38,887	39,633	50,440	232,737
Effect of discounting											(11,684)
Present value											221,053
Discounted liability in respect of earlier years											127,137
Total discounted gross liability (for liability classes) included in insurance liabilities in the statement of financial position											348,190

Estimate of net ultimate claims

	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	Total £000
At end of year	46,235	51,795	64,476	73,218	75,302	88,247	76,729	59,633	42,739	47,402	
One year later	43,107	48,432	53,700	64,796	72,336	79,272	66,475	47,690	40,397		
Two years later	38,979	44,498	50,805	57,758	68,057	73,735	60,075	47,428			
Three years later	34,180	42,524	50,168	59,353	66,822	69,837	55,710				
Four years later	35,004	39,321	50,062	55,975	60,314	65,872					
Five years later	34,688	37,208	49,879	57,012	59,521						
Six years later	33,702	37,606	48,960	57,070							
Seven years later	33,718	37,089	52,254								
Eight years later	32,819	37,996									
Nine years later	34,102										
Current estimate of ultimate claims	34,102	37,996	52,254	57,070	59,521	65,872	55,710	47,428	40,397	47,402	497,752
Cumulative payments to date	(29,757)	(32,332)	(43,822)	(45,485)	(46,449)	(42,540)	(23,983)	(9,439)	(3,949)	(1,298)	(279,054)
Outstanding liability	4,345	5,664	8,432	11,585	13,072	23,332	31,727	37,989	36,448	46,104	218,698
Effect of discounting											(11,684)
Present value											207,014
Discounted liability in respect of earlier years											108,949
Total discounted net liability (for liability classes) included in insurance liabilities in the statement of financial position											315,963

(b) Long-term insurance contracts

(i) Assumptions

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

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

Mortality

An appropriate base table of standard mortality is chosen depending on the type of contract. Where prudent, an allowance is made for future mortality improvements based on trends identified in population data.

Investment returns

Projected investment returns are based on actual yields for each asset class less an allowance for credit risk, where appropriate. The risk adjusted yields after allowance for investment expenses for the current valuation are as follows:

	2016	2015
UK and overseas government bonds: non-linked	0.75%	1.66%
UK and overseas government bonds: index-linked	-1.83%	-0.78%
Corporate debt instruments: index-linked	-1.29%	-0.10%

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. The real yield is shown gross of tax.

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 £2.90 per annum (2015: £2.70 per annum). As expenses are not incurred proportionally to policy numbers and are more fixed in nature, a number of expenses are reserved for in a separate exercise. A reserve for these expenses is held at £6.1 million (2015: £4.8 million).

Expense inflation is set with reference to the index-linked UK government bond rates of return, and published figures for earnings inflation, and is assumed to be 4.21% per annum (2015: 3.54%).

Tax

It has been assumed that tax legislation and rates applicable at 1 January 2017 will continue to apply. All in-force business is classed as protection business and is expected to be taxed on a profits basis.

(ii) Changes in assumptions

Projected investment returns have been revised in line with the changes in the actual yields of the underlying assets. As a result, liabilities have increased by £10.9 million (2015: £1.9 million decrease).

Changes to unit renewal expense assumptions (described in (b)(i) above), was a £0.6 million increase (2015: £0.3m increase).

(iii) Sensitivity analysis

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

	Change in variable	Potential increase/ (decrease) in the result	
		2016	2015
Variable		**£000**	£000
Deterioration in annuitant mortality	+10%	900	300
Improvement in annuitant mortality	-10%	(1,100)	(400)
Increase in fixed interest/cash yields	+1% pa	(100)	(100)
Decrease in fixed interest/cash yields	-1% pa	(200)	(400)
Worsening of base renewal expense level	+10%	(700)	(600)
Improvement in base renewal expense level	-10%	700	500
Increase in expense inflation	+1% pa	(1,100)	(800)
Decrease in expense inflation	-1% pa	900	700

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 2016	551,571	(120,753)	430,818
Cash (paid)/received for claims settled in the year	(184,846)	64,907	(119,939)
Change in liabilities/reinsurance assets			
- arising from current year claims	165,716	(59,074)	106,642
- arising from prior year claims	(28,027)	7,910	(20,117)
- change in discount rate	7,470	187	7,657
Exchange differences	28,980	(8,356)	20,624
At 31 December 2016	540,864	(115,179)	425,685
Provision for unearned premiums			
At 1 January 2016	153,697	(49,987)	103,710
Increase in the period	156,245	(49,673)	106,572
Release in the period	(159,171)	51,496	(107,675)
Exchange differences	9,517	(2,589)	6,928
At 31 December 2016	160,288	(50,753)	109,535
Long-term business provision			
At 1 January 2016	85,422	-	85,422
Acquisition	59,429	(59,429)	-
Effect of new business in the year	27,374	(27,374)	-
Effect of claims during the year	(11,868)	5,616	(6,252)
Changes in assumptions	1,231	(502)	729
Change in discount rate	18,503	(7,548)	10,955
Other movements	2,261	(1,215)	1,046
At 31 December 2016	182,352	(90,452)	91,900
Claims outstanding			
At 1 January 2015	564,380	(107,331)	457,049
Cash (paid)/received for claims settled in the year	(174,263)	50,721	(123,542)
Change in liabilities/reinsurance assets			
- arising from current year claims	200,148	(74,035)	126,113
- arising from prior year claims	(25,073)	7,213	(17,860)
- change in discount rate	(2,257)	(103)	(2,360)
Exchange differences	(11,364)	2,782	(8,582)
At 31 December 2015	551,571	(120,753)	430,818
Provision for unearned premiums			
At 1 January 2015	161,624	(50,134)	111,490
Increase in the period	154,575	(50,038)	104,537
Release in the period	(158,464)	49,250	(109,214)
Exchange differences	(4,038)	935	(3,103)
At 31 December 2015	153,697	(49,987)	103,710
Long-term business provision			
At 1 January 2015	94,324	-	94,324
Effect of claims during the year	(7,111)	-	(7,111)
Changes in assumptions	(1,988)	-	(1,988)
Change in discount rate	(1,882)	-	(1,882)
Other movements	2,079	-	2,079
At 31 December 2015	85,422	-	85,422

30 Provisions for other liabilities and contingent liabilities

Group	Regulatory and legal provisions £000	Other provisions £000	Total £000
At 1 January 2016	3,243	823	4,066
Acquisition	-	633	633
Additional provisions	3,835	1,130	4,965
Used during year	(2,943)	(146)	(3,089)
Not utilised	(339)	(32)	(371)
Exchange differences	-	22	22
At 31 December 2016	3,796	2,430	6,226
Current	2,308	128	2,436
Non-current	1,488	2,302	3,790

Regulatory provisions
The Group operates in the financial services industry and is subject to regulatory requirements in the normal course of business, including contributing towards any levies raised on UK general and long-term business. The provisions reflect an assessment by the Group of its share of the total potential levies.

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

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

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 2015	31,990	1,045	5,059	(3,875)	34,219
Charged/(credited) to profit or loss	1,652	(164)	(62)	1,186	2,612
(Credited)/charged to profit or loss					
- resulting from reduction in tax rate	(3,208)	(196)	(506)	189	(3,721)
Credited to other comprehensive income	-	(856)	-	(11)	(867)
Charged/(credited) to other comprehensive income					
- resulting from reduction in tax rate	-	52	-	(11)	41
Exchange differences	(52)	-	-	101	49
At 31 December 2015	30,382	(119)	4,491	(2,421)	32,333
Charged/(credited) to profit or loss	1,920	(129)	(832)	322	1,281
(Credited)/charged to profit or loss					
- resulting from reduction in tax rate	(1,390)	(196)	125	76	(1,385)
(Credited)/charged to other comprehensive income	-	(6,041)	-	19	(6,022)
Charged/(credited) to other comprehensive income					
- resulting from reduction in tax rate	-	197	-	(5)	192
Exchange differences	(19)	-	-	(174)	(193)
At 31 December 2016	30,893	(6,288)	3,784	(2,183)	26,206

Parent

The deferred tax liability, shown below, arises on unrealised gains on investments. The increase of £104,000 (2015: £184,000 increase), net of an £19,000 decrease (2015: £18,000 decrease) resulting from the reduction in tax rate, is recognised in the statement of profit or loss in the year.

The equalisation reserve was previously required by law and maintained in compliance with insurance companies' regulations. Transfers to this reserve were deemed to be tax deductible under legislation that applied prior to 1 January 2016 and gave rise to deferred tax. With effect from the implementation date of Solvency II, 1 January 2016, these reserves become taxable over 6 years under the transition rules set out by HM Treasury.

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

	2016		2015	
	Group £000	Parent £000	Group £000	Parent £000
Deferred tax liabilities	29,281	433	34,471	348
Deferred tax assets	(3,075)	-	(2,138)	-
	26,206	433	32,333	348

The Group has unused tax losses of £22,293,000 (2015: £21,137,000) arising from long-term 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

	2016		2015	
	Group	Parent	Group	Parent
	£000	£000	£000	£000
Creditors arising out of direct insurance operations	1,464	-	1,277	-
Creditors arising out of reinsurance operations	18,698	-	24,671	-
Derivative liabilities	543	-	1,466	-
Other creditors	32,844	-	26,666	-
Amounts owed to related parties	-	-	-	126
Accruals	23,264	51	20,170	2
	76,813	51	74,250	128
Current	76,479	51	73,944	128
Non-current	334	-	306	-

Derivative liabilities are in respect of equity futures contracts and are detailed in note 23.

33 Commitments

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

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

	2016	2015
	£000	£000
Within 1 year	6,857	5,282
Between 1 & 5 years	24,218	16,725
After 5 years	35,620	28,871
	66,695	50,878

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

	2016	2015
	£000	£000
Within 1 year	3,886	3,195
Between 1 & 5 years	12,789	9,806
After 5 years	5,020	5,154
	21,695	18,155
Operating lease rentals charged to profit or loss during the year	3,994	3,772

34 Related undertakings

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

Related undertakings
The Company's interest in related undertakings at 31 December 2016 is as follows:

Company	Company Registration Number	Share Capital	Holding of shares by Company	Group	Activity
Subsidiary undertakings					
Incorporated in the United Kingdom					
Ecclesiastical Insurance Office plc *	24869	Ordinary	100%	-	Insurance
		Preference	1.5%	-	
Ecclesiastical Investment Management Limited *	1811698	Ordinary	100%	-	Dormant company
Ecclesiastical Life Limited *	0243111	Ordinary	-	100%	Life insurance
Ecclesiastical Financial Advisory Services Limited *	2046087	Ordinary	-	100%	Independent financial advisory
Ecclesiastical Planning Services Limited *	02644860	Ordinary	100%	-	Funeral plan administration
Ecclesiastical Underwriting Management Limited *	02368571	Ordinary	100%	-	Insurance management services
EdenTree Investment Management Limited *	2519319	Ordinary	-	100%	Investment management
E.I.O. Trustees Limited *	0941199	Ordinary	-	100%	Dormant company
Farmers & Mercantile Insurance Brokers Limited **	03142714	Ordinary	-	100%	Insurance agents and brokers
Lycett, Browne-Swinburne & Douglass Limited **	00706042	Ordinary	-	100%	Insurance agents and brokers
Lycetts Financial Services Limited **	02057974	Ordinary	-	100%	Insurance agents and brokers
Lycetts Holdings Limited **	05866203	Ordinary	100%	-	Investment holding company
South Essex Insurance Brokers Limited *	6317314	Ordinary	-	100%	Insurance agents and brokers
South Essex Insurance Holdings Limited *	6317313	Ordinary	-	100%	Investment holding company
Incorporated in Australia					
Ansvar Insurance Limited ***	007216506	Ordinary	-	100%	Insurance
Ansvar Insurance Services Pty Limited ***	162612286	Ordinary	-	100%	Dormant company
Associated undertakings					
Incorporated in the United Kingdom					
Regis Mutual Management Limited ****	4194000	Ordinary A	-	26%	Insurance management services

* Registered office: Beaufort House, Brunswick Road, Gloucester, GL1 1JZ, United Kingdom
** Registered office: Milburn House, Dean Street, Newcastle upton Tyne, NE1 1PP, United Kingdom
*** Registered office: Level 5, Southbank Boulevard, Melbourne, VIC 3006, Australia
**** Registered office: 7 Maltings Place, 169 Tower Bridge Road, London, SE1 3JB, United Kingdom
^ not audited

The holding in Regis Mutual Management Limited is included within financial investments.

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 and directors.

	Parent £000	Subsidiaries £000	Other related parties £000
2016			
Group			
Trading, investment and other income, including recharges, and amounts received	167	-	1,051
Trading, investment and other expenditure, including recharges, and amounts paid	-	-	96
Amounts owed by related parties	-	-	70
Parent			
Trading, investment and other income, including recharges, and amounts received	-	6,296	112
Trading, investment and other expenditure, including recharges, and amounts paid	-	343	96
Amounts owed by related parties	-	493	66
Amounts owed to related parties	-	23,458	-
2015			
Group			
Trading, investment and other income, including recharges, and amounts received	332	-	1,018
Trading, investment and other expenditure, including recharges, and amounts paid	-	-	140
Amounts owed by related parties	-	-	114
Parent			
Trading, investment and other income, including recharges, and amounts received	-	51	100
Trading, investment and other expenditure, including recharges, and amounts paid	-	256	102
Amounts owed by related parties	-	45	82
Amounts owed to related parties	-	19,584	-

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

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

36 Events after the reporting period

Ogden discount rate change

On 27 February 2017, the Lord Chancellor and Secretary of State for Justice made an announcement in relation to decreasing the Ogden discount rate from 2.5% to -0.75%, based on a three year average of real returns on index linked gilts. A government review of the framework under which the future rate is set will also be undertaken. Courts must consider the Ogden rate when awarding compensation for future financial losses in the form of a lump sum in personal injury cases.

The Group's continuing UK Employers Liability and Public Liability portfolio of risks currently have low order sensitivity to the level of the rate due to low frequency of catastrophic injury cases, and discontinued UK Motor business is at an advanced stage of run off. The insurance contract liabilities at the balance sheet date reflect the current rate of -0.75% and uncertainties over the future rate. It is estimated that a 1% fall in the rate would increase the ultimate claims cost to the Group in the order of £1m with no adverse profit or loss impact due to uncertainty margins held.

Acquisition of business

On 18 November 2016, Ecclesiastical Planning Services Limited entered into an agreement to acquire certain assets of Funeral Planning Services Limited, an unlisted independent provider of prepaid funeral plans, in order to further expand our funeral planning business. The transfer of assets was completed on 17 February 2017 for a consideration of £5,750,000, of which £4,000,000 was paid in cash, with deferred consideration of up to £1,750,000 payable over the next two years. Goodwill is expected to be recognised on acquisition.

37 Prior year restatement

During the year the Group made a voluntary amendment to its policy of presenting the impact of discount rate changes on insurance contract liabilities within claims and change in insurance liabilities in the consolidated statement of profit or loss, instead presenting it within net investment return. The revised presentation matches movements in insurance liabilities due to discount rate changes with movements in the assets backing the liabilities. This results in the claims and change in insurance liabilities being more relevant and comparable from year to year. There is no net impact on profit before tax or shareholders' equity as a result of this reclassification.

Under IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors,* where a new standard requires it or when a change in accounting policy is applied voluntarily, a retrospective restatement of the prior period results is required. The effects of the restatement are detailed in this note, and included throughout the financial statement comparatives, where appropriate.

	As reported 2015 £000	Accounting policy change General business £000	Accounting policy change Long-term business £000	Restated 2015 £000
Revenue				
Gross written premiums	308,199	-	-	308,199
Outward reinsurance premiums	(113,115)	-	-	(113,115)
Net change in provision for unearned premiums	4,677	-	-	4,677
Net earned premiums	199,761	-	-	199,761
Fee and commission income	71,286	-	-	71,286
Other operating income	7	-	-	7
Net investment return	44,528	2,360	1,882	48,770
Total revenue	315,582	2,360	1,882	319,824
Expenses				
Claims and change in insurance liabilities	(163,916)	(2,257)	(1,882)	(168,055)
Reinsurance recoveries	66,925	(103)	-	66,822
Fees, commissions and other acquisition costs	(60,593)	-	-	(60,593)
Other operating and administrative expenses	(101,293)	-	-	(101,293)
Total operating expenses	(258,877)	(2,360)	(1,882)	(263,119)
Operating profit	56,705	-	-	56,705
Finance costs	(101)	-	-	(101)
Profit before tax	56,604	-	-	56,604
Tax expense	(7,597)	-	-	(7,597)
Profit for the year	49,007	-	-	49,007
Attributable to:				
Equity holders of the Parent	39,826	-	-	39,826
Non-controlling interest	9,181	-	-	9,181
	49,007	-	-	49,007

In addition to the above, the comparative financial statements have been restated to reclassify £9,721,000 from cash and cash equivalents to financial investments, to better reflect the expected maturity of the cash held on deposit. There is no net impact on profit before tax, or shareholders' equity as a result of this reclassification.

The effects of the restatement are included in the consolidated and parent statement of financial position, the consolidated and parent statement of cash flows, and throughout the financial statement comparatives, where appropriate.

38 Reconciliation of Alternative Performance Measures

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

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

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

		2016						
		Insurance		Inv'ment return	Inv'ment mngt	Broking and Advisory	Corporate costs	Total
		General £000	Long-term £000	£000	£000	£000	£000	£000
Revenue								
Gross written premiums		310,061	26,783	-	-	-	-	336,844
Outward reinsurance premiums		(114,041)	(26,706)	-	-	-	-	(140,747)
Net change in provision for unearned premiums		1,103	-	-	-	-	-	1,103
Net earned premiums	[1]	197,123	77	-	-	-	-	197,200
Fee and commission income	[2]	34,961	-	-	10,227	29,613	-	74,801
Other operating income		843	-	-	-	-	-	843
Net investment return		-	1,290	53,225	54	839	-	55,408
Total revenue		232,927	1,367	53,225	10,281	30,452	-	328,252
Expenses								
Claims and change in insurance liabilities		(137,689)	(30,532)	-	-	-	-	(168,221)
Reinsurance recoveries		51,164	28,838	-	-	-	-	80,002
Fees, commissions and other acquisition costs	[3]	(60,653)	(17)	-	(908)	370	-	(61,208)
Other operating and administrative expenses	[4]	(65,674)	(308)	(2,864)	(7,782)	(30,115) [5]	(10,134)	(116,877)
Total operating expenses		(212,852)	(2,019)	(2,864)	(8,690)	(29,745)	(10,134)	(266,304)
Operating profit	[6]	20,075	(652)	50,361	1,591	707	(10,134)	61,948
Finance costs		(93)	-	-	(4)	(4)	-	(101)
Profit before tax		19,982	(652)	50,361	1,587	703	(10,134)	61,847
Underwriting profit	[6]	20,075						
Combined operating ratio		89.8%						
Net expenses (= [2] + [3] + [4] + [5])	[7]	(101,500)						
Net expense ratio		51%						

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

The Group uses the industry standard net combined operating ratio as a measure of underwriting efficiency. The COR expresses the total of net claims costs, commission and underwriting expenses as a percentage of net earned premiums. It is calculated as ([1] - [6]) / [1].

The net expense ratio expresses total underwriting and corporate expenses as a proportion of net earned premiums. It is calculated as - [7] / [1].

		2015						
		Insurance		Inv'ment return	Inv'ment mngt	Broking and Advisory	Corporate costs	Total
		General	Long-term					
		£000	£000	£000	£000	£000	£000	£000
Revenue								
Gross written premiums		308,086	113	-	-	-	-	308,199
Outward reinsurance premiums		(113,115)	-	-	-	-	-	(113,115)
Net change in provision for unearned premiums		4,677	-	-	-	-	-	4,677
Net earned premiums	[1]	199,648	113	-	-	-	-	199,761
Fee and commission income	[2]	32,030	-	-	11,394	27,862	-	71,286
Other operating income		-	-	-	-	7	-	7
Net investment return		-	1,025	46,988	27	730	-	48,770
Total revenue		231,678	1,138	46,988	11,421	28,599	-	319,824
Expenses								
Claims and change in insurance liabilities		(168,173)	118	-	-	-	-	(168,055)
Reinsurance recoveries		66,822	-	-	-	-	-	66,822
Fees, commissions and other acquisition costs	[3]	(59,848)	(19)	-	(974)	248	-	(60,593)
Other operating and administrative expenses	[4]	(56,946)	(236)	(3,026)	(8,635)	(25,109)	[5] (7,341)	(101,293)
Total operating expenses		(218,145)	(137)	(3,026)	(9,609)	(24,861)	(7,341)	(263,119)
Operating profit	[6]	13,533	1,001	43,962	1,812	3,738	(7,341)	56,705
Finance costs		(101)	-	-	-	-	-	(101)
Profit before tax		13,432	1,001	43,962	1,812	3,738	(7,341)	56,604
Underwriting profit	[6]	13,533						
Combined operating ratio		93.2%						
Net expenses (= [2] + [3] + [4] + [5])	[7]	(92,105)						
Net expense ratio		46%						