Company Number 1718196

ECCLESIASTICAL

ECCLESIASTICAL INSURANCE GROUP plc
2014 ANNUAL REPORT

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DIRECTORS

Directors	* W. M. Samuel BSc, FCA *Chairman* * D. Christie BA, BSc (Econ) Dip. Ed. *Deputy Chairman* I. G. Campbell BSc (Econ) (Hons), ACA *Group Chief Financial Officer* * T. J. Carroll BA, MBA, FCII M. C. J. Hews BSc, FIA *Group Chief Executive* * J. F. Hylands FFA * A. P. Latham ACII * C. H. Taylor BSc (Hons) Banking and International Finance S. J. Whyte MC Inst. M, ACII *Deputy Group Chief Executive* * The Venerable C. L. Wilson * Ms D. P. Wilson BA (Hons), FCII
Company Secretary	Mrs R. J. Hall FCIS
Registered and Head Office	Beaufort House, Brunswick Road, Gloucester GL1 1JZ Tel: 0845 777 3322
Company Registration Number	1718196
Investment Management Office	24 Monument Street, London EC3R 8AJ Tel: 0845 604 4840
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 2014.

Group Chief Executive's Review

Just over one year ago, we set out a new vision for the Group. This was clear, stretching and inspirational. It was to work together to be the most trusted and ethical specialist financial services group, giving £50m to charity over three years.

That goal represented a step change for us, not just in terms of the quantum, but also in terms of clarity of focus. We are, in essence, underlining the benefits of being owned by a charity and emphasising the reason that so many of us work for and support Ecclesiastical. Put simply, this is to give help, support and money to those who need it most. This has been, and continues to be, a guiding light for every decision that we make.

Underpinning this ambitious goal has been a stretching set of business plans, alongside a radical Group-wide change programme, the main elements of which were set out in last year's report.

When we look back at where we were as a Group one year ago, and review performance against these plans, we can view the overall progress as nothing short of transformational. Our 2014 results are a profit before tax of £45.9m including an underwriting profit of £9.2m. The profits we have delivered have enabled us to pay grants of £23.5m to our charitable owner, Allchurches Trust Limited (ATL), as well as making other charitable donations directly to other great causes. Our progress in each of our strategic business divisions: Specialist Insurance; Investment Management; and Broking and Advisory, has also surpassed expectations for the year.

Most trusted specialist insurer

Each of our core underwriting areas saw an improvement in performance with every territory making a positive contribution. Our underwriting results were the best they have been for over five years.

Our underwriting performance for the year was a profit of £9.2m (2013: £8.2m loss), resulting in a Group COR of 95.9% (2013: 102.9%).

United Kingdom

Our insurance businesses in the UK reported an underwriting profit of £9.8m (2013: £9.8m).

Refocusing on our core niches and putting into place our new regional structure has seen the core UK business improve its performance over recent years, and this performance was sustained in 2014.

The storms and floods that hit the UK at the start of 2014 had a net cost to our property account of £8m. However, with no further significant weather events during 2014, the profitability of our property account exceeded expectations over the year as a whole.

Having withdrawn from the non-charitable care sector and focused on pricing risks appropriately, the performance of the non-abuse related liability account has improved considerably. However, we have taken the opportunity to strengthen reserves in respect of physical and sexual abuse claims during the year. We recognise and welcome the increase in transparency and openness that means victims of abuse feel able to come forward, and believe we are now appropriately reserved for potential claims. This action has, however, resulted in the overall liability account remaining loss-making despite the turnaround in underlying performance.

As expected, following our exit from the motor business, non-charity care and schemes not aligned to our niches, GWP decreased in the year, falling by 20% to £234.0m (2013: £291.3m). While we recognise that GWP has fallen significantly we are satisfied that we have taken the correct decisions, as demonstrated by the more consistent underwriting profitability in the UK over the last two years. Moderate sustainable profitable growth is being targeted as we build on our strengths and continue to position ourselves as the insurer of choice in our chosen segments.

Ireland

Our operations in Ireland generated an underwriting profit of £0.6m, a significant improvement on the 2013 loss of £9.1m, which was driven by performance in the liability portfolio. The team identified and implemented a series of corrective actions, commencing in late 2013 and continuing throughout 2014.

These actions included lapsing unprofitable business in selected niches and, while they resulted in a 12% fall in GWP, before translation, to £11.5m (2013: £13.6m), the quality of the portfolio was improved and there were notable new business wins during the year. Retention was in line with expectations and the team was strengthened by proactive recruitment across all areas.

Australia

Australia reported an underwriting loss of £1.1m (2013: £4.2m loss). The improvement in the underwriting performance was mainly due to the impact of new property reinsurance arrangements and a reduction in operating expenses. The Australian business delivered an underlying profit before discount rate movements relating to reductions in market interest rates. The negative reserve movements were more than offset by corresponding market gains in Ansvar Australia's investment portfolio which are not included within the underwriting result.

A new Chief Executive Officer, Warren Hutcheon, was appointed on 1 May 2014. Following a review of the business, a new operating model was announced on 1 September 2014. The key objective of the model is to better align the business with our specialist insurer strategy and the needs of our broker partners.

In 2014, GWP reduced by 12% to £40.1m (2013: £45.7m), primarily due to a 12% weakening of the Australian dollar against sterling during the year. Retention rates improved significantly in 2014 following the completion of the remediation of the business's property portfolio in mid-2013 and increasing focus on retaining core business.

Canada
Our Canadian branch reported an underwriting profit of £1.7m (2013: £1.1m loss), as the territory did not suffer the same levels of catastrophe weather events that had driven the losses in the previous year.

The 12% fall in the value of the Canadian dollar against sterling meant that the branch's contribution to Group GWP fell to £39.4m (2013: £41.2m) but GWP grew by 7% before translation, with strong retention rates of 94%, continuing a trend that has seen its premiums more than double since 2008.

Central operations
Profits from internal reinsurance arrangements in this segment were offset by corporate costs and a further modest strengthening of reserves in respect of adverse development reinsurance cover sold to ACS (NZ) Limited in 2012, resulting in an overall loss of £1.7m (2013: £3.7m loss).

Long-term insurance
As reported last year, Ecclesiastical Life Limited ceased writing new business from the end of April 2013. The result for 2014 was a small loss of £0.2m (2013: £0.4m profit) as pressure on index linked bond yields offset the underlying expected favourable run-off of the business.

Best ethical investment provider
Investments
The effects of persistent weak global economic activity and muted inflation were offset by the monetary policy measures deployed by the world's major central banks which helped to support positive returns across most asset classes during the year. Over the course of 2014, the FTSE All Share Index produced a return of 1.2% while the FTSE 100 Index generated a return of 0.7%. Our UK equity portfolio increased by 2.7%, outperforming both indices, reflecting its lower weighting in poorly performing sectors such as oil and mining.

Government bond yields decreased across the developed world over the course of the final quarter and gilts followed the global trend. The prospect of the Bank of England raising base rates has been pushed further into the future as inflation pressures have diminished, with wage inflation remaining restrained and falling commodity prices placing downward pressure on prices. Yields on corporate bonds reached record lows at the end of the year, although they failed to keep pace with gilts as credit spreads widened, reflecting both the deteriorating economic picture globally and the move towards gilts as risk aversion increased.

Longer dated gilts performed strongly while shorter dated gilts (<5 years) produced total returns of 2.9%. Our UK bond portfolio produced a total return of 3.6% in 2014, reflecting good performance of corporate bonds and preference shares which helped achieve returns above the shorter dated index.

Investment management
EIM's funds under management grew again in 2014, as new business inflows and positive market movements saw a 5% growth to £2.3bn.

For a second year in succession EIM attracted nearly £100m net new flows from third parties into Ecclesiastical investment funds. A further £5m was invested into our special charity investment vehicle. Overall fee income for EIM increased by 11% to £14.3m and pre-tax profits increased to £3.2m.

EIM further consolidated its position as a leader in sustainable and responsible investment, with the company winning the Moneyfacts Best Ethical Investment Provider Award for a sixth consecutive year, with it and its funds continuing to win awards. EIM was rated Platinum by Citywire and Andrew Jackson was awarded Fund Manager of the Year for the UK Growth sector. Across the team our fund managers continue to be highly rated, with Robin Hepworth, Sue Round and Chris Hiorns all holding Citywire ratings.

Most trusted specialist adviser
South Essex Insurance Brokers (SEIB), our insurance broker, continued to grow and provide a stable flow of income for the Group. We acquired the specialist broking firm Lansdown Insurance Brokers, which has widened our broker proposition to include new specialist areas. Profit before tax grew to just over £3m for 2014, supported in part by this successful acquisition and the synergies that are starting to flow.

During the year we completed the acquisition of Lycetts Holdings Limited (Lycetts) and now hold a 100% stake (2013: 75%). Lycetts continued to suffer from competitive pressures within key markets but despite this they maintained turnover at similar levels to last year. Costs were well controlled and as a result they still contributed a healthy profit to the Group. Net profit before tax was £3.2m (2013: £3.3m).

STRATEGIC REPORT

Our team of fully independent advisors, Ecclesiastical Financial Advisory Services (EFAS), continues to review and refine their offering to the Anglican clergy, and closer operational links are being developed between our advisory and broking businesses.

Group level goodwill relating to Lycetts Holdings Limited was impaired during the current and prior year, reducing the profit in the Broking and Advisory segment to £0.1m (2013: loss of £1.5m).

Looking ahead to 2015
Our capital strength has been maintained throughout the challenges of the last few years and our net assets have ended the year at £514m, after payment of grants to ATL. Available capital relative to our regulatory capital requirements remains very strong.

This financial strength, alongside our committed ethical approach, gives us robust foundations upon which we can build and invest, as well as face challenges from the competitive environment in which we operate.

The transformation delivered in 2014 represents an important step in Ecclesiastical's history. It is a moment where the Group has successfully changed the course of its underwriting performance, and there is increasing energy and passion around our new vision, both from within and outside the Group.

In 2015 we wish to build on this success and increase our momentum. We have clear and consistent business plans. We have an ambitious Group-wide change programme part implemented, and we have an increasingly high-performing, aligned team, with ethics running through their bloodstream, working hard to make a difference. We thank all our employees for their enormous contribution and commitment throughout what has been a year of extensive and, at times, unsettling change. They complete the year knowing that their efforts are already reaping rewards for those in need. Equally, we thank our customers and our business partners whom we seek to serve, and serve extremely well. It is only with their ongoing loyal support that we can give so much to good causes and build our combined momentum, working together for the greater good.

Principal risks and uncertainties
The principal risks and uncertainties, together with details of the financial risk management objectives and policies of the Group and Company, are disclosed in notes 3 and 4 to the financial statements. The Company is exposed to financial risk through its investments in subsidiary undertakings, its cash on deposit and its financial investments held. In respect of its investments in subsidiaries, the Company is subject to the financial risks within those undertakings, in particular that the proceeds from the trading subsidiaries' financial assets are not sufficient to fund the obligations arising from their insurance contracts. The most important components of financial risk are interest rate risk, credit risk, currency risk and equity price risk. Further details of the financial risks of the trading subsidiaries can be found in the Risk Management section of the Strategic Report in the accounts of Ecclesiastical Insurance Office plc. The core business of the Group is general insurance, thus insurance risks, including business mix, underwriting and pricing risk, reinsurance risk, claims reserving risk and competition and distribution risk, are all principal risks.

By order of the Board

Mark Hews
Group Chief Executive, Ecclesiastical Insurance Group plc
23 April 2015

DIRECTORS' REPORT

Principal activity
The principal activity of the Company is that of an investment holding company. Its principal subsidiary is Ecclesiastical Insurance Office plc (EIO). That company heads a group which operates principally as a provider of general insurance in addition to offering a range of financial services, with offices in the UK, Ireland, Canada and Australia. A list of the main subsidiary undertakings is given on page 66.

Ownership
At 22 April 2015 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.

Ian Campbell was appointed as Group Chief Financial Officer on 30 April 2014. Caroline Taylor was appointed as a Director of the Company on 8 September 2014.

All Directors that have served since the last Annual General Meeting (AGM) will be proposed for re-election at the forthcoming AGM. Caroline Taylor and Ian Campbell were appointed as Directors during the year and will therefore be proposed for election at the forthcoming AGM.

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

Neither the Directors nor their connected persons held any beneficial interest in any Ordinary shares of group companies during the year ended 31 December 2014. 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 Ecclesiastical Insurance Office plc at 31 December 2014:

Director	Nature of Interest	Number of EIO Non-Cumulative Irredeemable Preference Shares held 31.12.2014	31.12.2013
David Christie	Director	11,079	11,079
Mark Hews	Connected person	75,342	75,342
Will Samuel	Director	151,000	151,000

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

No contract of significance subsisted during or at the end of the financial year in which a Director was or is materially interested, 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 2014 (2013: £nil).

Charitable and political donations
Charitable donations paid and provided for by the Group in the year amounted to £25.2 million (2013: £5.5 million).

During the last ten years, a total of £117.1 million (2013: £97.3 million) has been provided by Group companies for church and charitable purposes.

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

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

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

The Group's approach is to pay a fair market value to attract appropriate candidates to the role, taking into consideration their individual skills and experience and the ethos of the organisation. Where it is thought necessary to compensate an individual's awards from previous employment, the Group will, as far as practicable, seek to match the expected value of such awards through the use of the Group's existing incentive arrangements. Where this is not possible, it may be necessary to offer some form of 'buy-out' award, the size of which will in the normal course reflect the commercial value of the award foregone and will also (where possible) be subject to some form of clawback if the individual leaves Ecclesiastical within a set time frame.

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

Pension arrangements
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 the responsibility of all management and believes that, for the period in question, the Group has maintained an adequate and effective system of risk management and internal control.

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

The Chartered Institute of Internal Auditors (CIIA) issued guidance during 2013, and as a result of this guidance the internal audit and compliance functions now have separate reporting lines.

The 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 is 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 section 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 £896.4m (including current assets classified as held for sale), 97% of which are liquid (2013: financial investments of £950.3m, 97% liquid); cash and cash equivalents of £122.4m and no bank borrowings (2013: cash and cash equivalents of £129.3m and no bank borrowings). As a consequence, the Directors have a reasonable expectation that the Group is well placed to manage its business risks successfully and continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

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.

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

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

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

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

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

Non-adjusting events after the reporting period
Events subsequent to the reporting period are detailed in note 37 to the financial statements.

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

By order of the Board

Mark Hews
Group Chief Executive, Ecclesiastical Insurance Group plc
23 April 2015

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 2014 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 37. 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 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

M. McQueen

Mark McQueen ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
23 April 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2014

	Notes	2014 £000	2013 £000
Revenue			
Gross written premiums	5, 6	328,797	399,345
Outward reinsurance premiums	6	(135,132)	(131,274)
Net change in provision for unearned premiums	6	31,178	24,592
Net earned premiums		224,843	292,663
Fee and commission income		81,057	76,734
Other operating income		29	93
Net investment return	7	46,622	78,081
Total revenue		352,551	447,571
Expenses			
Claims and change in insurance liabilities	8	(197,170)	(234,789)
Reinsurance recoveries	8	62,306	36,545
Fees, commissions and other acquisition costs	9	(70,261)	(79,777)
Other operating and administrative expenses		(100,988)	(105,250)
Total operating expenses		(306,113)	(383,271)
Operating profit		46,438	64,300
Finance costs		(87)	(127)
Share of (loss)/profit after tax of associate	13	(80)	9
Profit on disposal of associate	13	86	-
(Loss)/profit on acquisition of interest in subsidiary	16	(637)	182
Profit on disposal of interest in subsidiary		219	435
Profit before tax	5	45,939	64,799
Tax expense	14	(8,492)	(5,728)
Profit for the year	10	37,447	59,071
Attributable to:			
Equity holders of the Parent		28,153	50,847
Non-controlling interests		9,294	8,224
		37,447	59,071

CONSOLIDATED AND PARENT STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2014

	2014 Group £000	2014 Parent £000	2013 Group £000	2013 Parent £000
Profit for the year	37,447	4,966	59,071	1,569
Other comprehensive income				
Items that will not be reclassified to profit or loss:				
Fair value gains/(losses) on property	30	-	(104)	-
Losses on retirement benefit plans	(15,611)	-	(2,245)	-
Attributable tax	3,132	-	631	-
	(12,449)	-	(1,718)	-
Items that may be reclassified subsequently to profit or loss:				
Losses on currency translation differences	(1,697)	-	(10,071)	-
Net other comprehensive income	(14,146)	-	(11,789)	-
Total comprehensive income	23,301	4,966	47,282	1,569
Attributable to:				
Equity holders of the Parent	14,007	4,966	39,058	1,569
Non-controlling interests	9,294	-	8,224	-
	23,301	4,966	47,282	1,569

CONSOLIDATED AND PARENT STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2014

	Attributable to equity holders of the Parent						Non-	
	Share capital	Equalisation reserve	Revaluation reserve	Translation reserve	Retained earnings	Total	controlling interests	Total equity
Group	£000	£000	£000	£000	£000	£000	£000	£000
At 1 January 2014	20,000	25,837	700	14,340	351,610	412,487	117,064	529,551
Profit for the year	-	-	-	-	*28,153*	*28,153*	*9,294*	*37,447*
Other net income/(expense)	-	-	*40*	*(1,697)*	*(12,489)*	*(14,146)*	-	*(14,146)*
Total comprehensive income	-	-	40	(1,697)	15,664	14,007	9,294	23,301
Acquisition of non-controlling interest	-	-	-	-	-	-	(11,507)	(11,507)
Capital contributions from minority interests	-	-	-	-	-	-	947	947
Dividends	-	-	-	-	-	-	(9,348)	(9,348)
Gross charitable grant	-	-	-	-	(23,500)	(23,500)	-	(23,500)
Tax relief on charitable grant	-	-	-	-	5,053	5,053	-	5,053
Reserve transfers	-	(538)	(199)	-	737	-	-	-
At 31 December 2014	20,000	25,299	541	12,643	349,564	408,047	106,450	514,497
At 1 January 2013	20,000	25,590	752	24,411	305,746	376,499	117,572	494,071
Profit for the year	-	-	-	-	*50,847*	*50,847*	*8,224*	*59,071*
Other net expense	-	-	*(52)*	*(10,071)*	*(1,666)*	*(11,789)*	-	*(11,789)*
Total comprehensive income	-	-	(52)	(10,071)	49,181	39,058	8,224	47,282
Acquisition of non-controlling interest	-	-	-	-	-	-	(1,232)	(1,232)
Capital contributions from minority interests	-	-	-	-	-	-	1,800	1,800
Dividends	-	-	-	-	-	-	(9,300)	(9,300)
Gross charitable grant	-	-	-	-	(4,000)	(4,000)	-	(4,000)
Tax relief on charitable grant	-	-	-	-	930	930	-	930
Reserve transfers	-	247	-	-	(247)	-	-	-
At 31 December 2013	20,000	25,837	700	14,340	351,610	412,487	117,064	529,551
Parent								
At 1 January 2014	20,000	-	-	-	8,308	28,308		
Total comprehensive income attributable to equity holders	-	-	-	-	4,966	4,966		
At 31 December 2014	20,000	-	-	-	13,274	33,274		
At 1 January 2013	20,000	-	-	-	6,739	26,739		
Total comprehensive income attributable to equity holders	-	-	-	-	1,569	1,569		
At 31 December 2013	20,000	-	-	-	8,308	28,308		

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

Retained earnings of the Group includes a specific non-distributable reserve of a subsidiary amounting to £4,200,000 (2013: £4,200,000).

CONSOLIDATED AND PARENT STATEMENT OF FINANCIAL POSITION

for the year ended 31 December 2014

	Notes	2014		2013	
		Group	Parent	Group	Parent
		£000	£000	£000	£000
Assets					
Goodwill and other intangible assets	18	60,047	-	59,986	-
Deferred acquisition costs	19	31,117	-	34,757	-
Deferred tax assets	32	1,978	-	3,460	-
Pension assets	20	21,068	-	31,568	-
Investment in associate	13	-	-	390	-
Property, plant and equipment	21	7,333	-	8,062	-
Investment property	22	69,775	-	45,099	-
Financial investments	23	890,214	52,310	950,266	40,898
Reinsurers' share of contract liabilities	30	157,465	-	132,593	-
Current tax recoverable		-	-	135	-
Other assets	25	105,900	144	115,700	106
Cash and cash equivalents	26	122,411	462	129,334	2,715
Current assets classified as held for sale	27	6,204	-	-	-
Total assets		1,473,512	52,916	1,511,350	43,719
Equity					
Share capital	28	20,000	20,000	20,000	20,000
Retained earnings and other reserves		388,047	13,274	392,487	8,308
Equity attributable to equity holders of the Parent		408,047	33,274	412,487	28,308
Non-controlling interests	29	106,450	-	117,064	-
Total equity		514,497	33,274	529,551	28,308
Liabilities					
Insurance contract liabilities	30	820,328	-	848,267	-
Borrowings		1,259	19,458	1,637	15,258
Provisions for other liabilities	31	3,588	-	6,710	-
Pension liabilities	20	3,294	-	-	-
Retirement benefit obligations	20	12,547	-	11,744	-
Deferred tax liabilities	32	36,197	182	40,267	151
Current tax liabilities		6,007	-	2,837	-
Deferred income		16,454	-	14,282	-
Other liabilities	33	59,341	2	56,055	2
Total liabilities		959,015	19,642	981,799	15,411
Total equity and liabilities		1,473,512	52,916	1,511,350	43,719

The financial statements of Ecclesiastical Insurance Group plc, registered number 1718196, on pages 11 to 67 were approved and authorised for issue by the Board of Directors on 23 April 2015 and signed on its behalf by:

Will Samuel
Chairman

Mark Hews
Group Chief Executive

CONSOLIDATED AND PARENT STATEMENT OF CASH FLOWS
for the year ended 31 December 2014

	Notes	2014 Group £000	2014 Parent £000	2013 Group £000	2013 Parent £000
Profit before tax		45,939	4,915	64,799	1,535
Adjustments for:					
Loss/(profit) on acquisition of subsidiary		637	-	(182)	-
Depreciation of property, plant and equipment		1,812	-	2,081	-
(Profit)/loss on disposal of property, plant and equipment		(32)	-	110	-
Amortisation and impairment of intangible assets		7,024	-	9,066	-
Loss on disposal of intangible assets		19	-	7	-
Share of loss/(profit) of associate		80	-	(9)	-
Net fair value gains on financial instruments and investment property		(9,132)	(433)	(36,563)	(931)
Gain on disposal of interest in associate		(86)	-	-	-
Gain on disposal of interest in subsidiary		(219)	-	(435)	-
Dividend and interest income		(34,898)	(4,850)	(38,715)	(1,060)
Finance costs		87	235	127	177
Changes in operating assets and liabilities:					
Net decrease in insurance contract liabilities		(21,413)	-	(8,689)	-
Net (increase)/decrease in reinsurers' share of contract liabilities		(26,814)	-	5,275	-
Net decrease/(increase) in deferred acquisition costs		3,327	-	(1,075)	-
Net decrease/(increase) in other assets		7,752	(63)	15,382	(106)
Net increase/(decrease) in operating liabilities		5,426	-	(2,109)	98
Net (decrease)/increase in other liabilities		(2,881)	-	48	-
Cash (used)/generated by operations		(23,372)	(196)	9,118	(287)
Dividends received		8,816	4,861	10,099	1,061
Interest received		26,733	3	27,352	5
Interest paid		(87)	(235)	(127)	(177)
Tax recovered/(paid)		399	106	(1,291)	-
Net cash from operating activities		12,489	4,539	45,151	602
Cash flows from investing activities					
Purchases of property, plant and equipment		(1,700)	-	(1,102)	-
Proceeds from the sale of property, plant and equipment		677	-	55	-
Purchases of intangible assets		(1,568)	-	(2,237)	-
Acquisition of business, net of cash acquired		(5,000)	-	-	-
Disposal of businesses, net of cash transferred		396	-	-	-
Disposal of interest in subsidiary		1,166	-	2,235	-
Purchases of financial instruments and investment property		(152,899)	-	(269,766)	-
Sale of financial instruments and investment property		185,401	1,166	242,202	2,235
Net cash from/(used by) investing activities		26,473	1,166	(28,613)	2,235
Cash flows from financing activities					
Payment of finance lease liabilities		(371)	-	(405)	-
Proceeds from other borrowings		-	4,200	-	7
Acquisition of non-controlling interests		(12,144)	(12,144)	(1,050)	(1,050)
Dividends paid to non-controlling interests of subsidiaries		(9,181)	-	(9,085)	-
Donations paid to ultimate parent undertaking		(23,500)	-	(8,000)	-
Net cash used by financing activities		(45,196)	(7,944)	(18,540)	(1,043)
Net (decrease)/increase in cash and cash equivalents		(6,234)	(2,239)	(2,002)	1,794
Cash and cash equivalents at beginning of year		129,334	2,715	133,615	928
Exchange losses on cash and cash equivalents		(689)	(14)	(2,279)	(7)
Cash and cash equivalents at end of year	26	122,411	462	129,334	2,715

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, Australia, Canada and Ireland. The principal accounting policies adopted in preparing the Group's International Financial Reporting Standards (IFRS) financial statements are set out below.

Basis of preparation

The Group's consolidated financial statements have been prepared using the following accounting policies, which are in accordance with IFRS applicable at 31 December 2014 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 £896.4m (including current assets classified as held for sale), 97% of which are liquid (2013: financial investments of £950.3m, 97% liquid); cash and cash equivalents of £122.4m and no bank borrowings (2013: cash and cash equivalents of £129.3m and no bank borrowings). As a consequence, the Directors have a reasonable expectation that the Group is well placed to manage its business risks successfully and continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

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

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

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

Accounting Standard	Key requirements	Expected impact on financial statements	Effective date
IFRS 9, *Financial Instruments*	The final phase of IFRS 9 was issued in the year and the Standard has now been issued in full. It 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 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 IFRS 4 Phase II, the IASB's ongoing insurance accounting project.	Annual periods beginning on or after 1 January 2018
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 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 2017

The other Standards in issue but not yet effective are not expected to significantly 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 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 non-controlling interests and, for an acquisition achieved in stages, the fair value of previously held equity interest over the fair value of the identifiable net assets acquired. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised directly through profit or loss.

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

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

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

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

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

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

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

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

Premium income

General insurance business

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

Premiums written include adjustments to premiums written in prior periods and estimates for pipeline premiums and are shown net of insurance premium taxes. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or inwards reinsurance business.

Long-term business

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

Fee and commission income

Fee and commission income consists primarily of reinsurance commissions receivable in addition to income from the Group's insurance broking activities, investment fund management fees, distribution fees from mutual funds and commission revenue from the sale of mutual fund shares. Reinsurance commissions receivable and other commission income are recognised on the trade date. Income generated from insurance placements is recognised at the inception date of the cover.

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

Net investment return

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

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

Claims

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

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

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

Insurance contract liabilities

General insurance provisions

(i) Outstanding claims provisions

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

(ii) Provision for unearned premiums

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

(iii) Liability adequacy

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

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

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

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

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

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

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

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

Other intangible assets
Other intangible assets consist of acquired 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.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
1 Accounting policies (continued)

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

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

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

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

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

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

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

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

Financial assets at fair value through profit or loss
Financial investments are classified into this category if they are managed, and their performance evaluated, on a fair value basis. Purchases and sales of these investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the assets, at their fair value adjusted for transaction costs. Financial investments within this category are classified as held for trading if they are derivatives or acquired principally for the purpose of selling in the near term.

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

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

Derivative financial instruments
Derivative financial instruments include financial instruments that derive their value from underlying equity instruments. Group derivative transactions, while providing effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under the specific IFRS rules and are therefore treated as derivatives held for trading. All derivatives are initially recognised in the statement of financial position at their fair value, which usually represents their cost, including any premium paid. They are subsequently remeasured at their fair value with changes in the fair value recognised immediately in net investment return. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

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

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

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

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

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

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

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

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

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

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

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

For defined benefit plans, the pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to profit or loss so as to spread the regular cost over the service lives of employees, in accordance with the advice of qualified actuaries. The pension obligation is measured as the present value of the estimated future cash outflows using a discount rate based on market yields for high-quality corporate bonds. The resulting pension plan surplus or deficit appears as an asset or obligation in the statement of financial position. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future employer contributions to the plan.

In accordance with IAS 19, *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. Actuarial gains and losses are recognised immediately in other comprehensive income. Independent qualified actuaries value these obligations annually.

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

Other benefits

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

Taxation

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

Current tax is the expected tax payable on the taxable result for the period and any adjustment to the tax payable in respect of previous periods.

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

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

Deferred tax assets and liabilities are not discounted.

Appropriations

Dividends

Dividends on Ordinary shares are recognised in equity in the period in which they are declared and, for the final dividend, approved by shareholders.

Charitable grant to ultimate parent undertaking

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

Assets held for sale

Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and expected to qualify for recognition as a completed sale within one year from the date of classification.

2 Critical accounting estimates and judgements in applying accounting policies

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

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

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

The uncertainties surrounding the estimates of claims payments for the various classes of business are discussed further in note 3, and where discount rates have been applied these are disclosed in note 30. General business insurance liabilities include a margin for risk and uncertainty in addition to the best estimates for future claims. The sensitivity of profit or loss to changes in the ultimate settlement cost of claims reserves is presented in note 30.

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

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

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

In addition to the best estimates of future deaths, inflation, investment returns and administration expenses, margins for risk and uncertainty are added to these assumptions in calculating the liabilities of long-term insurance contracts. The sensitivity of profit or loss to changes in the key assumptions is presented in note 30.

(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 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 the actual medical expense increases with the rate of inflation. Other key assumptions for the pension and post-employment benefit costs and credits are based in part on current market

Additional information including the sensitivity of pension and post-employment medical benefit scheme liabilities to changes in the key assumptions is disclosed in note 20.

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 18.

(e) Carrying value of tax liabilities

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

3 Insurance risk

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

(a) Risk mitigation

Experience shows that the larger and more diversified the portfolio of insurance contracts, the smaller the relative variability 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 and supported by proactive claims handling. The overall reinsurance structure is regularly reviewed and modelled to ensure that it remains optimum to our needs. The optimum reinsurance structure can best be described as the one that provides us with sustainable, long-term capacity to support our specialist business strategy. This combines effective balance sheet protection at the same time as producing, over time, the required underwriting result and return on capital.

Catastrophe protection is purchased following an extensive annual modelling exercise of our gross and net (of proportional reinsurance) exposures. In conjunction with our reinsurance brokers we utilise the full range of proprietary catastrophe models, as well as continue to develop bespoke modelling options that better reflect the specialist nature of our 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 Group has also underwriten a small portfolio of motor policies, but this class is in run-off following the decision in November 2012 to focus on the principal classes. The accident class of business covers injury, death or incapacity as a result of an unforeseen event. The Group's whole-of-life insurance policies support funeral planning products.

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

Group		General insurance				Life insurance	
		Property	Liability	Motor	Accident	Funeral plans	Total
Territory		£000	£000	£000	£000	£000	£000
2014							
United Kingdom	Gross	172,097	51,710	183	13,664	167	237,821
	Net	90,053	46,017	(924)	13,197	167	148,510
Australia	Gross	22,638	15,532	763	1,150	-	40,083
	Net	(8,558)	13,300	757	1,105	-	6,604
Canada	Gross	27,918	11,447	-	-	-	39,365
	Net	19,691	10,562	-	-	-	30,253
Ireland	Gross	7,265	4,185	-	78	-	11,528
	Net	4,453	3,770	-	75	-	8,298
Total	Gross	229,918	82,874	946	14,892	167	328,797
	Net	105,639	73,649	(167)	14,377	167	193,665
2013							
United Kingdom	Gross	195,720	64,578	14,467	17,380	6,753	298,898
	Net	105,832	58,753	13,138	16,519	6,753	200,995
Australia	Gross	27,126	16,477	861	1,205	-	45,669
	Net	10,784	13,869	761	1,163	-	26,577
Canada	Gross	29,521	11,651	-	-	-	41,172
	Net	19,835	10,772	-	-	-	30,607
Ireland	Gross	7,876	5,691	1	38	-	13,606
	Net	4,610	5,241	1	40	-	9,892
Total	Gross	260,243	98,397	15,329	18,623	6,753	399,345
	Net	141,061	88,635	13,900	17,722	6,753	268,071

NOTES TO THE FINANCIAL STATEMENTS

3 Insurance risk (continued)

(c) General insurance risks

Property classes

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

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

The nature of claims may include fire, business interruption, weather damage, subsidence, accidental damage to insured vehicles and theft. Subsidence claims are difficult to predict because the damage is often not apparent for some time. Changes in soil moisture conditions can give rise to changes in claim volumes over time. The ultimate settlements can be small or large with a greater risk of a settled claim being re-opened at a later date.

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

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

Contracts are underwritten on a reinstatement basis or repair and renovation basis as appropriate. Costs of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims. Individual large claims are more likely to arise from fire, storm or flood damage. The greatest likelihood of an aggregation of claims arises from weather or recession-related events.

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

Liability classes

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

The severity of bodily injury claims is highly influenced by the value of loss of earnings and the future cost of care. The settlement value of claims arising under public and employers' liability is particularly difficult to predict. There is uncertainty as to whether any payments will be made and, if they are, the amount and timing of the payments. Key factors driving the high levels of uncertainty include the late notification of possible claim events and the legal process.

Late notification of possible claims necessitates the holding of provisions for incurred claims that may only emerge some years into the future. In particular the effect of inflation over such a long period can be considerable and is uncertain. A lack of comparable past experience makes it difficult to quantify the number of claims and, for certain types of claims, the amounts for which they will ultimately settle. The legal and legislative framework continues to develop which has a consequent impact on the uncertainty as to the length of the claims settlement process and the ultimate settlement amounts.

Claims payment, on average, occurs about three to four years after the event that gives rise to the claim. However, there is significant variability around this average.

Provisions for latent claims

The public and employers' liability classes can give rise to very late reported claims, which are often referred to as latent claims. These can vary in nature and are difficult to predict. They typically emerge slowly over many years. The Group has reflected this uncertainty and believes that it holds adequate reserves for latent claims that may result from exposure periods up to the reporting date.

Note 30 presents the development of the estimate of ultimate claim cost for public and employers' liability claims occurring in a given year. This gives an indication of the accuracy of the estimation technique for incurred claims.

(d) Life insurance risks

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

Uncertainty in the estimation of the timing of future claims arises from the unpredictability of long-term changes in overall levels of mortality. The Group bases these estimates on standard industry and national mortality tables. The most significant factors that could alter the expected mortality rates profile are epidemics, widespread changes in lifestyle and continued improvement in medical science and social conditions. The primary risk on these contracts is the level of future investment returns on the assets backing the liabilities over the life of the policyholders. The 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 attaching to corporate bonds held to match the liabilities. The small mortality risk is retained by the Group and directly impacts shareholders' equity.

4 Financial risk and capital management

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

There has been no change from the prior period in the nature of the financial risks to which the Group is exposed. The Group's management and measurement of financial risks is informed by either stochastic modelling or stress testing techniques.

(a) Categories of financial instruments

	Financial assets					
Group	Designated at fair value £000	Held for trading £000	Loans and receivables* £000	Financial liabilities** £000	Other assets and liabilities £000	Total £000
At 31 December 2014						
Financial investments	890,198	-	16	-	-	890,214
Other assets	-	-	102,424	-	3,476	105,900
Cash and cash equivalents	-	-	122,411	-	-	122,411
Assets classified as held for sale	-	-	***6,204	-	-	6,204
Borrowings	-	-	-	-	(1,259)	(1,259)
Other liabilities	-	-	-	(55,064)	(4,277)	(59,341)
Net other	-	-	-	-	(549,632)	(549,632)
Total	890,198	-	231,055	(55,064)	(551,692)	514,497
At 31 December 2013						
Financial investments	942,197	158	***7,911	-	-	950,266
Other assets	-	-	112,129	-	3,571	115,700
Cash and cash equivalents	-	-	129,334	-	-	129,334
Borrowings	-	-	-	-	(1,637)	(1,637)
Other liabilities	-	-	-	(49,640)	(6,415)	(56,055)
Net other	-	-	-	-	(608,057)	(608,057)
Total	942,197	158	249,374	(49,640)	(612,538)	529,551
Parent						
At 31 December 2014						
Financial investments	4,028	-	-	-	48,282	52,310
Other assets	-	-	144	-	-	144
Cash and cash equivalents	-	-	462	-	-	462
Borrowings	-	-	-	(19,458)	-	(19,458)
Other liabilities	-	-	-	(2)	-	(2)
Net other	-	-	-	-	(182)	(182)
Total	4,028	-	606	(19,460)	48,100	33,274
At 31 December 2013						
Financial investments	3,813	-	-	-	37,085	40,898
Other assets	-	-	106	-		106
Cash and cash equivalents	-	-	2,715	-	-	2,715
Borrowings	-	-	-	(15,258)	-	(15,258)
Other liabilities	-	-	-	(2)	-	(2)
Net other	-	-	-	-	(151)	(151)
Total	3,813	-	2,821	(15,260)	36,934	28,308

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

** Financial liabilities are held at amortised cost.

*** In the prior year financial investments included mortgages secured on residential property which are classified as held for sale in the current year. See note 27 for details.

(b) Fair value hierarchy

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

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

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

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

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

Analysis of fair value measurement bases	Fair value measurement at the end of the reporting period based on			
Group	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
At 31 December 2014				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	269,347	209	24,377	293,933
Debt securities	591,542	4,485	238	596,265
Total financial assets at fair value through profit or loss	860,889	4,694	24,615	890,198
At 31 December 2013				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	276,660	270	23,204	300,134
Debt securities	636,330	5,416	317	642,063
Derivatives	-	158	-	158
Total financial assets at fair value through profit or loss	912,990	5,844	23,521	942,355
Parent				
At 31 December 2014				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	-	-	4,028	4,028
Total financial assets at fair value through profit or loss	-	-	4,028	4,028
At 31 December 2013				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	-	-	3,813	3,813
Total financial assets at fair value through profit or loss	-	-	3,813	3,813

4 Financial risk and capital management (continued)

Fair value measurements based on level 3

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

	Financial assets at fair value through profit and loss		
Group	Equity securities £000	Debt securities £000	Total £000
At 31 December 2014			
Opening balance	23,204	317	23,521
Total gains/(losses) recognised in profit or loss	1,173	(79)	1,094
Closing balance	24,377	238	24,615
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	1,173	(79)	1,094
At 31 December 2013			
Opening balance	21,880	6,176	28,056
Total gains/(losses) recognised in profit or loss	1,324	(5,782)	(4,458)
Disposal proceeds	-	(77)	(77)
Closing balance	23,204	317	23,521
Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period	1,324	(5,782)	(4,458)
Parent			
At 31 December 2014			
Opening balance	3,813	-	3,813
Total gains recognised in profit or loss	215	-	215
Closing balance	4,028	-	4,028
Total gains for the period included in profit or loss for assets held at the end of the reporting period	215	-	215
At 31 December 2013			
Opening balance	3,317	-	3,317
Total gains recognised in profit or loss	496	-	496
Closing balance	3,813	-	3,813
Total gains for the period included in profit or loss for assets held at the end of the reporting period	496	-	496

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.

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4 Financial risk and capital management (continued)

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

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

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

Non exchange-traded derivative contracts (level 2)

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

Unlisted equity securities (level 3)

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

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

The increase in value during the year is the result of an increase in underlying net assets, partially offset by the movement in the euro exchange rate from the previous year end.

Unlisted debt (level 3)

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

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 increased uncertainty regarding the recoverability of the value of an asset.

(c) Interest rate risk

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

Interest rate risk concentration is reduced by adopting asset-liability duration matching principles where appropriate. Excluding assets held to back the long-term business, the average duration of the Group's fixed income portfolio is two years (2013: two years), reflecting the relatively short-term average duration of its general insurance liabilities. The mean term of discounted general insurance liabilities is disclosed in note 30 (a) part (iv).

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

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

	Maturity			
Group long-term business	Within 1 year £000	Between 1 & 5 years £000	After 5 years £000	Total £000
At 31 December 2014				
Assets				
Debt securities	1,053	24,311	79,490	104,854
Cash and cash equivalents	1,924	-	-	1,924
	2,977	24,311	79,490	106,778
Liabilities				
Long-term business provision	6,014	21,816	66,494	94,324
At 31 December 2013				
Assets				
Debt securities	1,104	27,024	73,075	101,203
Cash and cash equivalents	2,214	-	-	2,214
	3,318	27,024	73,075	103,417
Liabilities				
Long-term business provision	6,125	22,200	64,121	92,446

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

(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 insurance liabilities (excluding provision for unearned premiums) and amounts due from reinsurers in respect of claims already paid;
- deposits held with banks;
- amounts due from insurance intermediaries and policyholders; and
- counterparty default on loans and debt securities.

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

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

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

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

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

Collateral is held over loans secured by mortgages. The debt securities portfolio consists of a range of mainly fixed interest instruments including government securities, local authority issues, corporate loans and bonds, overseas bonds, preference shares and other interest-bearing securities. Limits are imposed on the credit ratings of the corporate bond portfolio and exposures regularly monitored. Group investments in unlisted securities represent less than 1% of this category in the current and prior year. The Group's exposure to counterparty default on debt securities is spread across a variety of geographical and economic territories, as follows:

Group	2014 £000	2013 £000
UK	424,480	463,879
Australia	87,037	93,283
Canada	60,162	58,629
Europe	24,586	26,272
Total	596,265	642,063

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

Non-derivative financial liabilities consist of finance leases, which are not material to the Group, and other liabilities for which a maturity analysis is included in note 33.

(f) Currency risk

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

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

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

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

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

The largest currency exposures with reference to net assets/liabilities are shown below representing effective diversification of resources.

	2014			2013	
	Group	Parent		Group	Parent
	£000	£000		£000	£000
Aus $	45,571	-	Aus $	43,053	-
Can $	34,757	-	Can $	33,044	-
Euro	18,653	4,028	Euro	17,029	4,200
NZ $	10,969	-	US $	1,479	-
Japanese Yen	1,047	-	Japanese Yen	1,130	-

(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:

	2014			2013	
	Group	Parent		Group	Parent
	£000	£000		£000	£000
UK	264,716	-	UK	273,650	-
Europe	24,470	4,028	Europe	23,207	3,813
Canada	2,583	-	Canada	1,909	-
US	1,950	-	US	979	-
Other	214	-	Other	389	-
Total	293,933	4,028	Total	300,134	3,813

(h) Market risk sensitivity analysis
The sensitivity of profit and other equity reserves to movements on market risk variables (comprising interest rate, currency and equity price risk), each considered in isolation, is shown in the following table:

Group		Potential increase/ (decrease) in profit		Potential increase/ (decrease) in other equity reserves	
Variable	Change in variable	2014 £000	2013 £000	2014 £000	2013 £000
Interest rate risk	-100 basis points	(4,284)	(254)	(15)	(121)
	+100 basis points	1,243	(4,769)	18	131
Currency risk	-5%	1,554	981	3,794	3,513
	+5%	(1,476)	(932)	(3,605)	(3,337)
Equity price risk	+/- 5%	11,537	11,518	-	-

Parent		Potential increase/ (decrease) in profit		Potential increase/ (decrease) in other equity reserves	
Variable	Change in variable	2014 £000	2013 £000	2014 £000	2013 £000
Currency risk	-5%	166	170	-	-
	+5%	(158)	(161)	-	-
Equity price risk	+/- 5%	158	146	-	-

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

Regulated subsidiaries are restricted in the amount of cash dividends they transfer to the parent entity in order for them to meet their individual minimum capital requirements. The Group's total available capital resources are disclosed in note 30 (b).

5 Segment information

(a) Operating segments

The Group segments its business activities on the basis of differences in the products and services offered and, for general insurance, the underwriting territory. This reflects the management and internal Group reporting structure. Group activities that are not reportable operating segments on the basis of size are included within an 'Other activities' category.

The activities of each operating segment are described below.

- General business

United Kingdom

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

Australia

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

Canada

The Group operates a general insurance Ecclesiastical branch in Canada.

Ireland

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

Central operations

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

- Investment management

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

- Broking and Advisory

The Group provides insurance broking through South Essex Insurance Brokers Limited and Lycetts Holdings Limited, and advisory services through Ecclesiastical Financial Advisory Services Limited and EdenTree Investment Management Limited (previously Ecclesiastical Services Limited).

- Life business

Ecclesiastical Life Limited provides long-term insurance policies to support funeral planning products. It is closed to new business.

- Other activities

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

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

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5 Segment information (continued)

Segment revenue

The Group uses gross written premiums as the measure for turnover of the general and life 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.

	2014 Gross written premiums £000	2014 Non-insurance services £000	2014 Total £000	2013 Gross written premiums £000	2013 Non-insurance services £000	2013 Total £000
General business						
United Kingdom	234,000	-	234,000	291,338	-	291,338
Australia	40,083	-	40,083	45,669	-	45,669
Canada	39,365	-	39,365	41,172	-	41,172
Ireland	11,528	-	11,528	13,606	-	13,606
Central operations	3,654	-	3,654	807	-	807
Total	328,630	-	328,630	392,592	-	392,592
Life business	167	-	167	6,753	-	6,753
Investment management	-	12,045	12,045	-	10,535	10,535
Broking and Advisory	-	28,693	28,693	-	26,771	26,771
Group revenue	328,797	40,738	369,535	399,345	37,306	436,651

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.

The life 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.

2014	*Combined operating ratio*	Insurance £000	Investments £000	Other £000	Total £000
General business					
United Kingdom	94.1%	9,765	23,360	70	33,195
Australia	106.2%	(1,129)	7,619	(139)	6,351
Canada	94.2%	1,662	1,598	-	3,260
Ireland	93.2%	594	288	-	882
Central operations		(1,693)	-	-	(1,693)
	95.9%	9,199	32,865	(69)	41,995
Life business		(178)	1,522	(4)	1,340
Investment management		-	3,164	-	3,164
Broking and Advisory		-	-	77	77
Other activities		-	(88)	(549)	(637)
Profit/(loss) before tax		9,021	37,463	(545)	45,939

5 Segment information (continued)

2013	*Combined operating ratio*	Insurance £000	Investments £000	Other £000	Total £000
General business					
United Kingdom	95.3%	9,815	59,726	(114)	69,427
Australia	114.8%	(4,182)	3,913	(2)	(271)
Canada	104.0%	(1,142)	1,459	-	317
Ireland	186.4%	(9,068)	385	-	(8,683)
Central operations		(3,666)	-	-	(3,666)
	102.9%	(8,243)	65,483	(116)	57,124
Life business		367	6,627	(5)	6,989
Investment management		-	1,728	-	1,728
Broking and Advisory		-	-	(1,502)	(1,502)
Other activities		-	1,332	(872)	460
(Loss)/profit before tax		(7,876)	75,170	(2,495)	64,799

(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:

	2014		2013	
	Gross written premiums £000	Non-current assets £000	Gross written premiums £000	Non-current assets £000
United Kingdom	237,821	136,492	298,898	110,402
Australia	40,083	257	45,669	918
Canada	39,365	2,407	41,172	1,338
Ireland	11,528	-	13,606	74
	328,797	139,156	399,345	112,732

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 2014			
Gross written premiums	328,630	167	328,797
Outward reinsurance premiums	(135,132)	-	(135,132)
Net written premiums	193,498	167	193,665
Change in the gross provision for unearned premiums	23,651	-	23,651
Change in the provision for unearned premiums, reinsurers' share	7,527	-	7,527
Change in the net provision for unearned premiums	31,178	-	31,178
Earned premiums, net of reinsurance	224,676	167	224,843
For the year ended 31 December 2013			
Gross written premiums	392,592	6,753	399,345
Outward reinsurance premiums	(131,274)	-	(131,274)
Net written premiums	261,318	6,753	268,071
Change in the gross provision for unearned premiums	27,205	-	27,205
Change in the provision for unearned premiums, reinsurers' share	(2,613)	-	(2,613)
Change in the net provision for unearned premiums	24,592	-	24,592
Earned premiums, net of reinsurance	285,910	6,753	292,663

7 Net investment return

	2014 £000	2013 £000
Income from financial assets at fair value through profit or loss		
- equity income	8,934	10,340
- debt income	22,936	25,250
Income from financial assets not at fair value through profit or loss		
- interest income on mortgages and other loans	328	414
- cash and cash equivalents income, net of exchange movements	(112)	1,743
- other income received	1,573	1,754
Other income		
- rental income	3,831	2,017
Investment income	37,490	41,518
Fair value movements on financial instruments at fair value through profit or loss	6,673	35,220
Fair value movements on investment property	2,459	1,343
Net investment return	46,622	78,081

Included within cash and cash equivalents income are exchange losses of £1,352,000 (2013: £843,000 gains).

Included within fair value movements on financial instruments at fair value through profit or loss are £158,000 losses (2013: £7,813,000 losses) in respect of derivatives classified as held for trading.

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 2014			
Gross claims paid	188,263	7,016	195,279
Gross change in the provision for claims	(13)	26	13
Gross change in long-term business provisions	-	1,878	1,878
Claims and change in insurance liabilities	188,250	8,920	197,170
Reinsurers' share of claims paid	(43,034)	-	(43,034)
Reinsurers' share of change in the provision for claims	(19,272)	-	(19,272)
Reinsurance recoveries	(62,306)	-	(62,306)
Claims and change in insurance liabilities, net of reinsurance	125,944	8,920	134,864
For the year ended 31 December 2013			
Gross claims paid	206,963	7,854	214,817
Gross change in the provision for claims	20,526	(44)	20,482
Gross change in long-term business provisions	-	(510)	(510)
Claims and change in insurance liabilities	227,489	7,300	234,789
Reinsurers' share of claims paid	(38,888)	-	(38,888)
Reinsurers' share of change in the provision for claims	2,343	-	2,343
Reinsurance recoveries	(36,545)	-	(36,545)
Claims and change in insurance liabilities, net of reinsurance	190,944	7,300	198,244

9 Fees, commissions and other acquisition costs

	2014 £000	2013 £000
Fees paid	533	404
Commission paid	51,334	62,236
Change in deferred acquisition costs	3,327	(1,075)
Other acquisition costs	15,067	18,212
Fees, commissions and other acquisition costs	70,261	79,777

10 Profit for the year

	2014 £000	2013 £000
Profit for the year has been arrived at after charging/(crediting)		
Net foreign exchange losses/(gains)	1,352	(843)
Depreciation of property, plant and equipment	1,812	2,081
(Profit)/loss on disposal of property, plant and equipment	(32)	110
Amortisation of intangible assets	2,722	3,745
Impairment of goodwill	4,302	5,321
Increase in fair value of investment property	(2,459)	(1,343)
Employee benefits expense including termination benefits	73,858	74,968
Operating lease rentals	3,920	4,044

11 Auditor's remuneration

	2014 £000	2013 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	15	14
Fees payable to the Company's auditor and its associates for other services:		
- The audit of the Company's subsidiaries	358	364
Total audit fees	373	378
- Audit-related assurance services	84	88
- Other assurance services	6	6
- Taxation advisory services	-	9
Total non-audit fees	90	103
Total auditor's remuneration	463	481

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

Fees payable to the Company's auditor in respect of the audit of the Group's associated pension plans amounted to £15,000 (2013: £15,000).

12 Employee information

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

	2014			2013		
	General business No.	Long-term business No.	Other No.	General business No.	Long-term business No.	Other No.
United Kingdom	673	9	345	732	9	313
Australia	101	-	-	110	-	-
Canada	63	-	-	60	-	-
Ireland	34	-	-	22	-	-
	871	9	345	924	9	313

	2014 £000	2013 £000
Wages and salaries	62,935	60,043
Social security costs	5,512	5,217
Pension costs - defined contribution plans	3,063	2,694
Pension costs - defined benefit plans	1,774	1,961
Other post-employment benefits	551	783
	73,835	70,698

The above figures do not include termination benefits of £23,000 (2013: £4,270,000).

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

	2014 £000	2013 £000
Salaries and other short-term employee benefits	1,992	1,584
Long-term cash incentive	311	51
Post-employment benefits	121	129
	2,424	1,764

Directors' remuneration includes amounts paid in Canadian dollars. An average exchange rate of 1.8177 Canadian dollars to 1 GBP has been used in respect of the current and prior year.

The prior year comparatives have been adjusted for the effects of exchange and have also been adjusted for the following:

Salaries and other short-term employee benefits have been adjusted to include £19,000 paid in 2014 to one Director in respect of their service during 2013 and to include travel and accommodation benefits of £6,000 in respect of two Directors. A cash allowance in lieu of pension of £25,000 has been re-classified to post-employment benefits.

Long-term cash incentives have been adjusted to include £28,000 paid in 2014 to one Director in respect of their service during 2013.

Post-employment benefits have been adjusted to include £2,000 in respect of one Director, attributable to their service in 2013. A cash allowance in lieu of pension of £25,000 has been reclassified from salaries and other short-term employee benefits.

Post-employment benefits includes £100,000 (restated 2013: £68,000) 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 (2013: one Director). Three Directors (2013: two) were members of the Group's defined contribution scheme during the year.

12 Employee information (continued)

		2014	2013
		£000	£000
Highest paid director	- emoluments *	877	521
	- money purchase pension contributions	30	48
Chairman's fees **		68	68

* The 2013 emoluments figure for the highest paid director has been adjusted to include £2,000 travel and accommodation benefits.

**The Chairman has waived £27,000 of his 2014 fee, which was increased to £95,000 from 1 January 2014.

13 Associate

On 20 May 2014 the Group disposed of its 40% shareholding in its associate Amlin Plus Limited, an unlisted insurance services company incorporated in the United Kingdom, for consideration of £396,000, recognising a profit on disposal of £86,000. The Group's interest in Amlin Plus Limited is as follows:

	2014	2013
	£000	£000
At 1 January	390	501
Share of (loss)/profit after tax for the year	(80)	9
Dividend paid	-	(120)
Disposal	(310)	-
At 31 December	-	390
Group's share of:		
Revenue	163	513
(Loss)/profit	(80)	9
Share of assets	-	1,167
Share of liabilities	-	(777)
Share of net assets of associate	-	390

14 Tax expense

		2014 £000	2013 £000
Current tax	- current year	9,176	6,001
	- prior years	(1,206)	(1,696)
Deferred tax	- temporary differences	46	6,568
	- prior years	476	(253)
	- reduction in tax rate	-	(4,892)
Total tax expense		8,492	5,728

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:

	2014 £000	2013 £000
Profit before tax	45,939	64,799
Tax calculated at the UK standard rate of tax of 21.5% (2013: 23.25%)	9,877	15,066
Factors affecting charge for the year:		
Expenses not deductible for tax purposes	2,027	405
Non-taxable income	(2,990)	(2,236)
Life insurance and other tax paid at non-standard rates	424	(389)
Utilisation of tax losses for which no deferred tax asset has been recognised	(116)	(277)
Impact of reduction in deferred tax rate	-	(4,892)
Adjustments to tax charge in respect of prior periods	(730)	(1,949)
Total tax expense	8,492	5,728

A deferred tax credit on fair value movements on owner-occupied property of £10,000 (2013: £52,000 credit) and tax relief on charitable grants of £5,053,000 (2013: £930,000) are taken directly to equity.

A change in the UK standard rate of corporation tax from 23% to 21% became effective from 1 April 2014. Where appropriate, current tax has been provided at the blended rate of 21.5%. A further reduction in the rate of corporation tax to 20% will become effective from April 2015. Deferred tax has been provided at the rate of 20%.

15 Appropriations

	2014 £000	2013 £000
Charitable grants		
Gross charitable grants to the ultimate parent company, Allchurches Trust Limited	23,500	4,000
Tax relief	(5,053)	(930)
Net appropriation for the year	18,447	3,070

16 Acquisition of additional shares in subsidiary

At 1 January 2014 the Group owned 75% of Lycetts Holding Limited (hereafter referred to as Lycetts), a holding company of a group whose primary activity is insurance broking business. Through the course of 2014 the Group acquired the remaining 25% of the shares for a cash consideration of £12,144,000 paid to minority interest shareholders, generating a loss on the acquisition of £637,000. The purpose of the business combination is to diversify the portfolio of the Group and benefit from Lycetts' expertise in rural, specialist commercial and bloodstock lines of business.

17 Acquisition of business

On 15 April 2014, South Essex Insurance Brokers Limited acquired the assets of Lansdown Insurance Brokers (hereafter referred to as Lansdown). Lansdown is an insurance broker across a variety of classes of business, with a particular specialism in blocks of flats and apartments and high net worth homes. Lansdown was acquired as part of the Group's strategy to identify new market sectors in which to grow, either organically or through acquisition, and is included within the Broking and Advisory segment in note 5.

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

	£000
Property, plant and equipment	12
Intangible assets	1,166
Total identifiable assets	1,178
Goodwill	4,392
Total consideration	5,570
Satisfied by:	
Cash	5,000
Contingent consideration arrangement	570
Total consideration	5,570

The net cash outflow arising on acquisition was £5,000,000.

The goodwill of £4,392,000 arising from the acquisition consists of intangible assets not qualifying for separate recognition, such as workforce, synergies and new business opportunities. None of the goodwill is expected to be deductible for income tax purposes.

The fair value of the identifiable intangible assets of £1,166,000 consists of the value of customer relationships and brand acquired.

The contingent consideration arrangement requires £2,100,000 of retained commission income to be received for the twelve months to 15 April 2015, with the potential amount of the future payment that the Group could be required to make being between £nil and £1,000,000.

The fair value of the contingent consideration of £570,000 was estimated based on current commission forecasts, without discounting as the payment is payable after exactly one year from the date of acquisition. The calculation of commission income is expected to be finalised during May 2015.

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

Lansdown contributed £1,046,000 revenue and £555,000 to the Group's profit before tax for the period between the date of acquisition and the balance sheet date. If the acquisition of Lansdown had been completed on the first day of the financial year, Group revenues for the period would have been £352,887,000 and Group profit before tax would have been £46,190,000.

18 Goodwill and other intangible assets

Group	Goodwill £000	Computer software £000	Other intangible assets £000	Total £000
Cost				
At 1 January 2014	51,911	22,307	15,561	89,779
Additions	-	1,568	-	1,568
Acquisition	4,392	-	1,166	5,558
Disposals	-	(3,816)	-	(3,816)
Exchange differences	-	(42)	-	(42)
At 31 December 2014	56,303	20,017	16,727	93,047
Accumulated impairment losses and amortisation				
At 1 January 2014	5,329	18,295	6,169	29,793
Amortisation charge for the year	-	1,215	1,507	2,722
Impairment losses for the year	4,302	-	-	4,302
Disposals	-	(3,797)	-	(3,797)
Exchange differences	-	(20)	-	(20)
At 31 December 2014	9,631	15,693	7,676	33,000
Net book value at 31 December 2014	46,672	4,324	9,051	60,047
Cost				
At 1 January 2013	51,911	21,792	15,561	89,264
Additions	-	2,237	-	2,237
Disposals	-	(1,206)	-	(1,206)
Exchange differences	-	(516)	-	(516)
At 31 December 2013	51,911	22,307	15,561	89,779
Accumulated impairment losses and amortisation				
At 1 January 2013	8	17,736	4,577	22,321
Amortisation charge for the year	-	2,153	1,592	3,745
Impairment losses for the year	5,321	-	-	5,321
Disposals	-	(1,198)	-	(1,198)
Exchange differences	-	(396)	-	(396)
At 31 December 2013	5,329	18,295	6,169	29,793
Net book value at 31 December 2013	46,582	4,012	9,392	59,986

£23,032,000 of the goodwill balance in the current year (2013: £27,267,000) relates to the acquisition of Lycetts Holdings Limited during 2011. £16,885,000 of the goodwill balance in the current and prior year relates to the acquisition of South Essex Insurance Holdings Limited during 2008. £4,392,000 of the balance relates to the acquisition of Lansdown Insurance Brokers Limited during the current year (see note 17). The recoverable amount, determined on a value in use basis, indicated that an impairment of £4,235,000 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 carrying value 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). For the goodwill balances relating to South Essex Insurance Holdings Limited and Lansdown Insurance Brokers Limited, the headroom above the goodwill carrying value is significant and reasonably possible changes to the key assumptions do not result in impairment. 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 of 2.3% (2013: 2.3%), sourced from the Office for Budget Responsibility. Discounting is at the Group's long-term targeted return on capital of 12% (2013: 12%).

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, which have an overall remaining useful life of eight years on a weighted average basis.

19 Deferred acquisition costs

Group	2014 £000	2013 £000
At 1 January	34,757	34,626
Increase in the period	31,267	35,795
Release in the period	(34,594)	(34,720)
Exchange differences	(313)	(944)
At 31 December	31,117	34,757

All balances are current.

20 Retirement benefit schemes

Defined benefit pension plans

The Group's main plan is a defined benefit plan for UK employees. The assets of the plan are held separately from those of the Group by the Trustee of the Ecclesiastical Insurance Office plc Staff Retirement Benefit Fund (the Fund). The Fund is subject to the Statutory Funding Objective under the Pensions Act 2004. An independent qualified actuary appointed by the Trustee is responsible for undertaking triennial valuations to determine whether the Statutory Funding Objective is met. Pension costs for the plan are determined by the Trustee, having considered the advice of the actuary and having consulted with the employer. The most recent triennial valuation was at 31 December 2013. Lycetts Holdings Limited also operates a defined benefit plan. Actuarial valuations were reviewed and updated by the actuaries at 31 December 2014 for IAS 19 (R) purposes. As disclosed in 2013, the Irish plan closed on 31 March 2014 and has been accounted for as a curtailment and settlement as shown in the tables below.

Since 2000, Ecclesiastical Insurance Office plc (EIO) has been 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 EIO. The assets of the scheme are held separately from those of EIO, and are invested with an insurance company under a Group Funding policy. The most recent triennial valuation was at 1 January 2011.

The EIOPLA has not previously been reported within the Group accounts and, while it has not been material from a Group perspective, the scheme should have been included within the Group results. The financial effects of the scheme have therefore been included in the Group statement of profit or loss and statement of other comprehensive income for 2014.

The scheme has consistently been in a surplus position but as the recoverability of any surplus is uncertain the asset is derecognised, with any gains or losses relating to the scheme being eliminated in the year. As a result, there would have been no change to the net assets of the Group if the scheme had previously been included in the results. Due to the immateriality of the scheme, and the impact of the derecognition of the surplus, prior year results have not been restated. Instead, the scheme has been brought into the Group financial statements for 2014, and is shown as a transfer in in the reconciliation of plan assets and reconciliation of defined benefit obligations shown below. Had the prior year comparative been restated, the effect on the financial statements would have been a £24,000 increase in profit for the year and no change to the balance sheet.

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.

- Inflation risk: A significant proportion of scheme benefits is 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.

- 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.

NOTES TO THE FINANCIAL STATEMENTS

20 Retirement benefit schemes (continued)

During the year, the Trustee of the Fund concluded the appointment of a new Scheme Actuary and Plan Administrator following a competitive tendering process. A comprehensive review of the Fund's Additional Voluntary Ccontribution arrangements was also completed.

All Group defined benefit plans are now closed to new entrants but remain 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	2014 £000	2013 £000
The amounts recognised in the statement of financial position are determined as follows:		
Present value of funded obligations	(291,711)	(270,813)
Fair value of plan assets	310,048	303,359
	18,337	32,546
Restrictions on asset recognised	(563)	(978)
Net asset in the statement of financial position	17,774	31,568
Movements in the net asset recognised in the statement of financial position are as follows:		
At 1 January	31,568	36,370
Exchange differences	22	(25)
Expense charged to profit or loss*	(2,293)	(2,371)
Amounts recognised in other comprehensive income	(15,120)	(5,898)
Contributions paid	3,597	3,492
At 31 December	17,774	31,568
The amounts recognised through profit or loss are as follows:		
Current service cost	3,864	3,816
Administration cost	417	250
Interest expense on liabilities	12,134	10,624
Interest income on plan assets	(13,751)	(12,319)
Effect of interest on the asset ceiling	41	-
Gains on settlements/curtailments	(412)	-
Total, included in employee benefits expense	2,293	2,371
The amounts recognised in the statement of other comprehensive income are as follows:		
Return on plan assets, excluding interest income	2,448	17,465
Experience gains on liabilities	4,416	127
Gains from changes in demographic assumptions	5,273	-
Losses from changes in financial assumptions	(28,401)	(22,512)
Change in asset ceiling	1,144	(978)
Total included in other comprehensive income	(15,120)	(5,898)

* Charge to profit or loss includes £519,000 (2013: £410,000) in respect of member salary sacrifice contributions and costs ultimately borne by related parties.

NOTES TO THE FINANCIAL STATEMENTS

20 Retirement benefit schemes (continued)

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

	2014 £000	2013 £000
Pension assets	21,068	31,568
Pension liabilities	(3,294)	-
	17,774	31,568

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

	2014 %	2013 %
Discount rate	3.67	4.60
Inflation (RPI)	3.08	3.49
Inflation (CPI)	2.09	2.70
Future salary increases	4.46	4.86
Future increase in pensions in deferment	2.14	2.74
Future pension increases (linked to RPI)	3.08	3.49
Future pension increases (linked to CPI)	2.08	2.70

Mortality rate	2014	2013
The average life expectancy in years of a pensioner retiring at age 65, at the year end date, is as follows:		
Male	23.8	25.5
Female	25.5	27.7
The average life expectancy in years of a pensioner retiring at age 65, 20 years after the year end date, is as follows:		
Male	26.1	27.9
Female	27.7	30.2

Plan assets are weighted as follows:	2014 %	2013 %
Cash and cash equivalents	6	5
Equity instruments		
UK quoted	25	30
Overseas quoted	25	29
	50	59
Debt instruments		
UK public sector quoted - fixed interest	2	3
UK non-public sector quoted - fixed interest	18	15
UK quoted - index-linked	14	11
	34	29
Other	10	7
	100	100

The actual return on plan assets was a gain of £16,199,000 (2013: gain of £29,784,000).

The weighted average duration of the defined benefit obligation at the end of the reporting period is 23 years (2013: 21 years).

The contribution expected to be paid by the Group during the year ending 31 December 2015 is £3.1 million.

NOTES TO THE FINANCIAL STATEMENTS

20 Retirement benefit schemes (continued)

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

	2014 £000	2013 £000
Plan assets		
At 1 January	303,359	275,638
Transfer in	2,947	-
Interest income	13,751	12,319
Return on plan assets, excluding interest income	2,448	17,465
Pension benefits paid and payable	(11,472)	(5,613)
Contributions paid	3,597	3,492
Administration cost	(25)	(29)
Assets distributed on settlements	(4,416)	-
Exchange differences	(141)	87
At 31 December	310,048	303,359
Defined benefit obligation		
At 1 January	270,813	239,268
Transfer in	2,259	-
Current service cost	3,864	3,816
Administration cost	392	221
Interest cost	12,134	10,624
Pension benefits paid and payable	(11,472)	(5,613)
Experience gains on liabilities	(4,416)	(127)
Gains from changes in demographic assumptions	(5,273)	-
Losses from changes in financial assumptions	28,401	22,512
Liabilities extinguished on settlements/curtailments	(4,828)	-
Exchange differences	(163)	112
At 31 December	291,711	270,813
Asset ceiling		
At 1 January	978	-
Transfer in	688	-
Effect of interest on the asset ceiling	41	-
Change in asset ceiling	(1,144)	978
At 31 December	563	978

History of plan assets and liabilities	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000
Present value of defined benefit obligations	(291,711)	(270,813)	(239,268)	(215,292)	(213,740)
Fair value of plan assets	310,048	303,359	275,638	250,101	237,440
	18,337	32,546	36,370	34,809	23,700
Restrictions on asset recognised	(563)	(978)	-	-	-
Surplus	17,774	31,568	36,370	34,809	23,700

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

Assumption	**Change in assumption**	**Impact on plan liabilities** 2014	 2013
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 10%/12%	Decrease/increase by 11%/13%
Inflation	Increase/decrease by 0.5%	Increase/decrease by 10%/9%	Increase/decrease by 10%/10%
Salary increase	Increase/decrease by 0.5%	Increase/decrease by 3%/2%	Increase/decrease by 3%
Life expectancy	Increase/decrease by 1 year	Increase/decrease by 3%	Increase/decrease by 3%

20 Retirement benefit schemes (continued)

Post-employment medical benefits

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

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

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

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

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

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

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

	2014 £000	2013 £000
Present value of unfunded obligations and net obligations in the statement of financial position	12,547	11,744
Movements in the net obligations recognised in the statement of financial position are as follows:		
At 1 January	11,744	14,810
Total expense charged to profit or loss	551	783
Net actuarial losses/(gains) during the year, recognised in other comprehensive income	491	(3,653)
Benefits paid	(239)	(196)
At 31 December	12,547	11,744
The amounts recognised through profit or loss are as follows:		
Current service cost	33	116
Interest cost	518	667
Total, included in employee benefits expense	551	783

The weighted average duration of the net obligations at the end of the reporting period is 22 years (2013: 22 years).

The main actuarial assumptions for the plan are a long-term increase in medical costs of 12.0% (2013: 12.0%) and a discount rate of 3.7% (2013: 4.6%). The sensitivity analysis below has been determined on reasonably possible changes of the assumptions occurring at the end of the accounting period assuming that all other assumptions are held constant.

Assumption	**Change in assumption**	**Impact on plan liabilities** 2014	 2013
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 10%/11%	Decrease/increase by 10%/11%
Medical expense inflation	Increase/decrease by 1.0%	Increase/decrease by 23%/18%	Increase/decrease by 23%/18%
Life expectancy	Increase/decrease by 1 year	Increase/decrease by 11%/8%	Increase/decrease by 11%/8%

21 Property, plant and equipment

Group	Land and buildings £000	Motor vehicles £000	Furniture, fittings and equipment £000	Computer equipment £000	Total £000
Cost or valuation					
At 1 January 2014	3,505	2,878	6,758	7,978	21,119
Additions	-	525	525	865	1,915
Acquisition	-	-	12	-	12
Disposals	(504)	(787)	(1,479)	(2,239)	(5,009)
Revaluation	30	-	-	-	30
Exchange differences	4	-	(37)	(7)	(40)
At 31 December 2014	3,035	2,616	5,779	6,597	18,027
Depreciation					
At 1 January 2014	-	1,156	5,554	6,347	13,057
Charge for the year	-	476	422	914	1,812
Disposals	-	(507)	(1,403)	(2,233)	(4,143)
Exchange differences	-	-	(32)	-	(32)
At 31 December 2014	-	1,125	4,541	5,028	10,694
Net book value at 31 December 2014	3,035	1,491	1,238	1,569	7,333
Cost or valuation					
At 1 January 2013	3,688	3,219	7,426	8,003	22,336
Additions	-	634	63	933	1,630
Disposals	-	(975)	(612)	(604)	(2,191)
Revaluation	(104)	-	-	-	(104)
Exchange differences	(79)	-	(119)	(354)	(552)
At 31 December 2013	3,505	2,878	6,758	7,978	21,119
Depreciation					
At 1 January 2013	-	1,281	5,628	6,176	13,085
Charge for the year	-	514	563	1,004	2,081
Disposals	-	(639)	(548)	(540)	(1,727)
Exchange differences	-	-	(89)	(293)	(382)
At 31 December 2013	-	1,156	5,554	6,347	13,057
Net book value at 31 December 2013	3,505	1,722	1,204	1,631	8,062

All properties were revalued at 31 December 2012, with the exception of two properties, which were revalued at 31 December 2014. Valuations were carried out by Cluttons, an external firm of chartered surveyors, using standard industry methodology to determine a fair market value. All properties are classified as level 2 assets.

The value of land and buildings on a historical cost basis is £3,521,000 (2013: £3,673,000).

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

Included within net book value of motor vehicles is £1,182,000 (2013: £1,530,000) and within net book value of computer equipment is £17,000 (2013: £30,000) in respect of assets held under finance leases.

22 Investment property

Group	2014 £000	2013 £000
Net book value at 1 January	45,099	27,315
Additions	23,817	17,894
Disposals	(1,600)	(1,453)
Fair value gains	2,459	1,343
Net book value at 31 December	69,775	45,099

The Group's investment properties were last revalued at 31 December 2014 by Cluttons, an external firm of chartered surveyors. Valuations were carried out using standard industry methodology to determine a fair market value. All properties are classified as level 2 assets.

Investment properties are held for long-term capital appreciation rather than short-term sale. Rental income arising from the investment properties owned by the Group amounted to £3,831,000 (2013: £2,017,000) and is included in net investment return. Other operating and administrative expenses include £391,000 (2013: £350,000) relating to investment property.

23 Financial investments

Financial investments summarised by measurement category are as follows:

	2014		2013	
	Group £000	Parent £000	Group £000	Parent £000
Financial investments at fair value through profit or loss				
Equity securities				
- listed	269,556	-	276,930	-
- unlisted	24,377	4,028	23,204	3,813
Debt securities				
- government bonds	196,179	-	225,413	-
- listed	399,848	-	416,445	-
- unlisted	238	-	205	-
Derivative financial instruments				
- options	-	-	158	-
	890,198	4,028	942,355	3,813
Loans and receivables				
Loans secured by mortgages *	-	-	7,892	-
Other loans	16	-	19	-
	16	-	7,911	-
Parent investments in subsidiary undertakings				
Shares in subsidiary undertakings				
- listed	-	-	-	947
- unlisted	-	48,282	-	36,138
	-	48,282	-	37,085
Total financial investments	890,214	52,310	950,266	40,898
Current	331,154	11,412	391,206	-
Non-current	559,060	40,898	559,060	40,898

* Included as current assets held for sale in the statement of financial position in the current year (see note 27).

24 Derivative financial instruments

The Group utilises non-hedge derivatives to mitigate equity price risk arising from investments held at fair value.

Group	2014			2013		
	Contract/ notional amount £000	Fair value asset £000	Fair value liability £000	Contract/ notional amount £000	Fair value asset £000	Fair value liability £000
Equity/Index contracts						
Options	-	-	-	30,000	158	-

All balances are current.

The notional amount above reflects the aggregate of individual derivative positions on a gross basis and so gives an indication of the overall scale of the derivative transaction. It does not reflect current market values of the open positions.

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

25 Other assets

	2014 Group £000	2014 Parent £000	2013 Group £000	2013 Parent £000
Receivables arising from insurance and reinsurance contracts				
- due from contract holders	24,469	-	25,474	-
- due from agents, brokers and intermediaries	40,645	-	43,287	-
- due from reinsurers	7,230	-	8,808	-
Other receivables				
- accrued interest and rent	7,032	-	7,876	-
- other prepayments and accrued income	3,641	-	3,786	-
- amounts owed by related parties	147	144	630	106
- other debtors	22,736	-	25,839	-
	105,900	144	115,700	106
Current	103,900	144	113,700	106
Non-current	2,000	-	2,000	-

The Group has recognised a charge of £454,000 (2013: credit of £71,000) in other operating and administrative expenses in the statement of profit or loss for the impairment of its trade and other receivables during the year.

The Group balance due from reinsurers comprises £14,415,000 (2013: £11,728,000) receivable net of £7,185,000 (2013: £2,920,000) payable.

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	2014 £000	2013 £000
Balance at 1 January	323	882
Movement in the year	(109)	(559)
Balance at 31 December	214	323

Included within trade receivables of the Group is £4,927,000 (2013: £5,379,000) overdue but not impaired, of which £4,111,000 (2013: £4,676,000) is not more than three months overdue at the reporting date.

26 Cash and cash equivalents

	2014		2013	
	Group	Parent	Group	Parent
	£000	£000	£000	£000
Cash at bank and in hand	62,899	462	70,213	2,715
Short-term bank deposits	59,512	-	59,121	-
	122,411	462	129,334	2,715

Included within cash at bank and in hand of the Group is £4,808,000 (2013: £4,948,000) pledged as collateral in respect of an insurance liability.

27 Current assets held for sale

Ecclesiastical Financial Advisory Services Limited ceased to offer new mortgages following a strategic review in 2007, although it continued to administer the existing book. During the current year management have decided to dispose of the mortgage book in order to more clearly focus their attention on the current elements of the business.

After the end of the financial year the Company entered into an agreement to transfer its legacy mortgage business to Holmesdale Building Society. The transfer was completed on 1 February 2015.

The current assets held for sale consist of mortgages secured on residential property.

	2014
	£000
Cost at 1 January	7,892
Repayments and redemptions	(1,022)
Market value adjustment	(666)
Carrying value at 31 December	6,204

The effective interest rate on the mortgages is 4.71% (2013: 4.42%).

Clients have the option to redeem mortgages before the end of the mortgage term. The Directors consider that the carrying value approximates to fair value.

There are no debts which are past due at the reporting date and no amounts have been impaired during the current or prior year.

The major class of assets comprising the operations classified as held for sale is financial investments.

28 Called up share capital

	2014	2013
	£000	£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.

29 Non-controlling interests

Non-controlling interests comprise the 8.625% Non-Cumulative Irredeemable Preference shares (NcIPs) in Ecclesiastical Insurance Office plc and the Lycetts non-controlling interest (see note 16).

	Lycetts £000	NcIPs £000
Balance at 1 January 2014	11,561	105,503
(Purchase of)/sale to non-controlling interest	(11,506)	947
Subsidiary loss attributable to non-controlling interest	(55)	-
Balance 31 December 2014	-	106,450

Summarised financial information in respect of Lycetts is set out below.

	2014 £000	2013 £000
Assets	21,171	25,780
Liabilities	18,053	18,580
Revenue	19,449	19,304
Profit for the year	2,529	2,287
Total comprehensive income	588	1,716
Net cash from operating activities	3,363	1,636
Net cash from investing activities	72	124
Net cash used by financing activities	(351)	(84)
Dividends paid to non-controlling interests	167	216

30 Insurance liabilities and reinsurance assets

Group	2014 £000	2013 £000
Gross		
Claims outstanding	564,380	569,179
Unearned premiums	161,624	186,642
Long-term business provision	94,324	92,446
Total gross insurance liabilities	820,328	848,267
Recoverable from reinsurers		
Claims outstanding	107,331	89,472
Unearned premiums	50,134	43,121
Total reinsurers' share of insurance liabilities	157,465	132,593
Net		
Claims outstanding	457,049	479,707
Unearned premiums	111,490	143,521
Long-term business provision	94,324	92,446
Total net insurance liabilities	662,863	715,674
Gross insurance liabilities		
Current	324,979	372,878
Non-current	495,349	475,389
Reinsurance assets		
Current	92,728	105,451
Non-current	64,737	27,142

(a) General business insurance contracts

(i) Reserving methodology

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

Chain ladder methods extrapolate paid amounts, incurred amounts (paid claims plus case estimates) 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 historic settlement patterns.

(ii) Calculation of uncertainty margins

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

(iii) Calculation of provisions for latent claims

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

30 Insurance liabilities and reinsurance assets (continued)

(iv) Discounting

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

	Discount rate		Mean term of discounted liabilities	
Geographical territory	2014	2013	2014	2013
UK and Ireland	0.8% to 3.3%	0.4% to 3.8%	14	15
Canada	1.3% to 3.0%	1.1% to 3.2%	14	14
Australia	2.3%	3.3%	4	5

The above rates of interest are based on government bond yields of the relevant currency and term at the reporting date. Adjustments are made, where appropriate, to reflect portfolio assets held and to allow for future investment expenses. At the year end the undiscounted gross outstanding claims provision was £606,259,000 for the Group (2013: £626,418,000).

At 31 December 2014, it is estimated that a fall of 1% in the discount rates used would increase the Group's net outstanding claims provisions by £13,865,000 (2013: £12,402,000). 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 quarterly basis. This involves an appraisal of each portfolio with respect to ultimate claims liability for the recent exposure period as well as for earlier periods, together with a review of the factors that have the most significant impact on the assumptions used to determine the reserving methodology. The work conducted on each portfolio is subject to an internal peer review and management sign-off process.

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

		2014		2013	
		Gross	Net	Gross	Net
		£000	£000	£000	£000
Liability	- UK	28,100	25,600	28,300	25,500
	- Overseas	11,000	8,500	12,000	9,900
Property	- UK	5,500	3,100	6,900	4,100
	- Overseas	4,700	2,000	5,200	3,200
Motor	- UK	2,200	1,100	2,900	2,500

(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

	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	Total £000
At end of year	46,155	45,688	50,840	56,420	74,742	84,476	82,095	100,612	81,725	61,901	
One year later	32,998	45,900	47,307	53,552	59,807	75,550	76,371	88,046	80,027		
Two years later	35,001	40,092	43,270	47,643	55,250	62,239	71,543	78,196			
Three years later	30,365	36,168	35,510	44,658	57,134	66,422	68,587				
Four years later	26,835	30,791	35,556	40,433	55,695	61,330					
Five years later	25,860	28,470	34,925	37,546	58,631						
Six years later	25,893	27,154	34,036	37,864							
Seven years later	25,312	27,377	33,917								
Eight years later	25,753	28,534									
Nine years later	26,818										
Current estimate of ultimate claims	26,818	28,534	33,917	37,864	58,631	61,330	68,587	78,196	80,027	61,901	535,805
Cumulative payments to date	(22,528)	(23,052)	(27,728)	(30,331)	(39,684)	(40,931)	(28,373)	(17,905)	(8,075)	(1,342)	(239,949)
Outstanding liability	4,290	5,482	6,189	7,533	18,947	20,399	40,214	60,291	71,952	60,559	295,856
Effect of discounting											(14,462)
Present value											281,394
Discounted liability in respect of earlier years											108,802
Total discounted gross liability (for liability classes) included in insurance liabilities in the statement of financial position											390,196

Estimate of net ultimate claims

	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	Total £000
At end of year	39,528	41,007	46,235	51,795	64,476	73,218	75,302	88,247	76,729	59,633	
One year later	32,780	40,976	43,107	48,432	53,700	64,796	72,336	79,272	66,475		
Two years later	31,287	35,783	38,979	44,498	50,805	57,758	68,057	73,735			
Three years later	28,641	33,145	34,180	42,524	50,168	59,353	66,822				
Four years later	25,665	30,283	35,004	39,321	50,062	55,975					
Five years later	25,391	28,230	34,688	37,208	49,879						
Six years later	25,150	26,926	33,702	37,606							
Seven years later	24,024	27,150	33,718								
Eight years later	24,534	28,016									
Nine years later	25,726										
Current estimate of ultimate claims	25,726	28,016	33,718	37,606	49,879	55,975	66,822	73,735	66,475	59,633	497,585
Cumulative payments to date	(21,565)	(22,885)	(27,529)	(30,121)	(37,829)	(36,575)	(28,071)	(17,838)	(7,999)	(1,324)	(231,736)
Outstanding liability	4,161	5,131	6,189	7,485	12,050	19,400	38,751	55,897	58,476	58,309	265,849
Effect of discounting											(14,462)
Present value											251,387
Discounted liability in respect of earlier years											92,646
Total discounted net liability (for liability classes) included in insurance liabilities in the statement of financial position											344,033

(b) Long-term insurance contracts

(i) Assumptions

The most significant assumptions in determining long-term business reserves are as follows:

Mortality

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

Investment returns

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

	2014	2013
UK government bonds: non-linked	1.52%	2.76%
UK government bonds: index-linked	-0.98%	-0.31%
Corporate debt instruments: index-linked	-0.32%	0.42%

The investment return assumption is determined by calculating an overall yield on all cash flows projected to occur from the portfolio of financial assets which are assumed to back the relevant class of liabilities. This is in accordance with a modification to PRA Rule INSPRU 3.1.35R, which was granted in September 2011. For index-linked assets, the real yield is shown.

Funeral plans renewal expense level and inflation

Numbers of policies in force and both projected and actual expenses are considered when setting the base renewal expense level. The unit renewal expense assumption for this business is £2.70 per annum (2013: £2.70 per annum). Additionally, now the business volumes are expected to fall, a number of expenses have been reserved for in a separate exercise. A reserve for these expenses is held at £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 3.68% per annum (2013: 4.05%).

Tax

It has been assumed that tax legislation and rates applicable at 1 January 2014 will continue to apply. All in-force business is classed as protection business and is expected to be taxed on a profits basis.

(ii) Changes in assumptions

Projected investment returns have been revised in line with the changes in the actual yields of the underlying assets. As a result, liabilities have increased by £7.3 million (2013: £1.9 million decrease).

Changes to unit renewal expense assumptions (described in (i) above) had no effect on insurance liabilities (2013: £0.4 million increase).

(iii) Sensitivity analysis

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

	Change in variable	Potential increase/ (decrease) in the result	
Variable		2014 £000	2013 £000
Deterioration in annuitant mortality	+10%	500	100
Improvement in annuitant mortality	-10%	(600)	(100)
Increase in fixed interest/cash yields	+1% pa	1,000	(1,400)
Decrease in fixed interest/cash yields	-1% pa	(1,700)	(1,100)
Worsening of base renewal expense level	+10%	(600)	(500)
Improvement in base renewal expense level	-10%	500	500
Increase in expense inflation	+1% pa	(900)	(700)
Decrease in expense inflation	-1% pa	700	600

(iv) Available capital resources

	Non-profit life fund £000	Share-holders' fund £000	Total life business £000	Other activities £000	Group total £000
2014					
Shareholders' equity	(1,314)	43,008	41,694	366,353	408,047
Adjustments to assets/liabilities	7,500	(7,500)	-	(76,772)	(76,772)
Total available capital resources	6,186	35,508	41,694	289,581	331,275
Policyholder liabilities					
- life insurance business	94,324	-	94,324		
Net actuarial liabilities on statement of financial position	94,324	-	94,324		
2013					
Shareholders' equity	(1,136)	41,515	40,379	372,108	412,487
Adjustments to assets/liabilities	7,500	(7,500)	-	(100,723)	(100,723)
Total available capital resources	6,364	34,015	40,379	271,385	311,764
Policyholder liabilities					
- life insurance business	92,446	-	92,446		
Net actuarial liabilities on statement of financial position	92,446	-	92,446		

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

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

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

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

(v) Movements in life capital

	Non-profit life fund £000	Share-holders' fund £000	Total life business £000
Published capital resources as at 31 December 2013	6,364	34,015	40,379
Effect of new business	44	-	44
Variance between actual and expected experience	146	-	146
Effect of changes to valuation interest rates	(642)	-	(642)
Effect of change to expense assumption	(23)	-	(23)
Effect of change to inflation assumption	120	-	120
Other movements	177	1,493	1,670
Capital resources as at 31 December 2014	6,186	35,508	41,694

NOTES TO THE FINANCIAL STATEMENTS

30 Insurance liabilities and reinsurance assets (continued)

(c) Movements in insurance liabilities and reinsurance assets

Group	Gross £000	Reinsurance £000	Net £000
Claims outstanding			
At 1 January 2014	569,179	(89,472)	479,707
Cash (paid)/received for claims settled in the year	(195,279)	43,034	(152,245)
Change in liabilities/reinsurance assets			
- arising from current year claims	183,977	(44,824)	139,153
- arising from prior year claims	11,315	(17,482)	(6,167)
Exchange differences	(4,812)	1,413	(3,399)
At 31 December 2014	564,380	(107,331)	457,049
Provision for unearned premiums			
At 1 January 2014	186,642	(43,121)	143,521
Increase in the period	162,393	(50,549)	111,844
Release in the period	(186,044)	43,022	(143,022)
Exchange differences	(1,367)	514	(853)
At 31 December 2014	161,624	(50,134)	111,490
Long-term business provision			
At 1 January 2014	92,446	-	92,446
Effect of claims during the year	(7,176)	-	(7,176)
Changes in assumptions	7,317	-	7,317
Other movements	1,737	-	1,737
At 31 December 2014	94,324	-	94,324
Claims outstanding			
At 1 January 2013	565,937	(94,902)	471,035
Cash (paid)/received for claims settled in the year	(214,817)	38,888	(175,929)
Change in liabilities/reinsurance assets			
- arising from current year claims	238,818	(37,309)	201,509
- arising from prior year claims	(3,519)	764	(2,755)
Exchange differences	(17,240)	3,087	(14,153)
At 31 December 2013	569,179	(89,472)	479,707
Provision for unearned premiums			
At 1 January 2013	219,798	(46,109)	173,689
Increase in the period	191,426	(43,370)	148,056
Release in the period	(218,631)	45,983	(172,648)
Exchange differences	(5,951)	375	(5,576)
At 31 December 2013	186,642	(43,121)	143,521
Long-term business provision			
At 1 January 2013	92,956	-	92,956
Effect of new business during the year	6,291	-	6,291
Effect of claims during the year	(7,569)	-	(7,569)
Changes in assumptions	(1,335)	-	(1,335)
Change in methodology	(21)	-	(21)
Other movements	2,124	-	2,124
At 31 December 2013	92,446	-	92,446

31 Provisions for other liabilities and contingent liabilities

(a) Provisions

Group	Regulatory and legal provisions £000	Restructuring and other provisions £000	Total £000
At 1 January 2014	3,462	3,248	6,710
Additional provisions	-	1,130	1,130
Used during year	-	(1,669)	(1,669)
Not utilised	(1,440)	(1,137)	(2,577)
Exchange differences	-	(6)	(6)
At 31 December 2014	2,022	1,566	3,588
Current	2,022	910	2,932
Non-current	-	656	656

Regulatory provisions

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

In addition, from time to time the Group receives complaints from customers and, 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 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 potential redress and associated administration costs that would be payable in relation to any complaints we may uphold. Further administration costs in relation to invalid claims are also included in the provision.

Restructuring and other provisions

The provision for restructuring and other costs relates to costs in respect of redundancies, dilapidations and deferred consideration.

(b) Contingent liabilities

As reported in the 2013 annual report and accounts, the Group is in correspondence with HM Revenue and Customs regarding the treatment of its preference share capital for group tax purposes. While the issue is still not fully resolved, further correspondence has brought more clarity and we now believe that we have adequately provided for any additional tax cost to the Group. We no longer believe that there is a contingent liability in respect of this issue in addition to the amount provided.

32 Deferred tax

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

Group	Unrealised gains on investments £000	Net retirement benefit assets £000	Equalisation reserve £000	Other differences £000	Total £000
At 1 January 2013	29,564	4,993	5,886	(4,993)	35,450
Charged/(credited) to profit or loss	6,804	67	49	(605)	6,315
(Credited)/charged to profit or loss					
- resulting from reduction in tax rate	(3,806)	(517)	(768)	199	(4,892)
Credited to other comprehensive income	-	(449)	-	(31)	(480)
Credited to other comprehensive income					
- resulting from reduction in tax rate	-	(130)	-	(21)	(151)
Exchange differences	(60)	-	-	625	565
At 31 December 2013	32,502	3,964	5,167	(4,826)	36,807
(Credited)/charged to profit or loss	(486)	203	(108)	913	522
Credited to other comprehensive income	-	(3,122)	-	(10)	(3,132)
Exchange differences	(26)	-	-	48	22
At 31 December 2014	31,990	1,045	5,059	(3,875)	34,219

Parent

The deferred tax liability, shown below, arises on unrealised gains on investments. The increase of £31,000 (2013: £72,000 increase), *net of £nil (2013: £10,000 decrease) resulting from the reduction in tax rate, is recognised in the statement of profit or loss in the year.*

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

	2014 Group £000	2014 Parent £000	2013 Group £000	2013 Parent £000
Deferred tax liabilities	36,197	182	40,267	151
Deferred tax assets	(1,978)	-	(3,460)	-
	34,219	182	36,807	151

The Group has unused tax losses of £21,417,000 (2013: £22,141,000) arising from life business and capital transactions, which are available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

33 Other liabilities

	2014		2013	
	Group	Parent	Group	Parent
	£000	£000	£000	£000
Creditors arising out of direct insurance operations	831	-	656	-
Creditors arising out of reinsurance operations	13,034	-	13,578	-
Other creditors	26,063	-	26,774	-
Amounts owed to related parties	40	-	11	-
Accruals	19,373	2	15,036	2
	59,341	2	56,055	2
Current	59,011	2	55,769	2
Non-current	330	-	286	-

The Group creditors arising out of reinsurance operations comprises £32,333,000 (2013: £39,745,000) payable net of £19,299,000 (2013: £26,167,000) receivable.

The Group amounts owed to related parties comprises £56,000 (2013: £11,000) payable net of £16,000 (2013: £nil) receivable.

34 Commitments

Capital commitments
At the year end, the Group had capital commitments of £63,000 relating to computer software (2013: £1,685,000) and £37,000 relating to furniture, fittings and equipment (2013: £nil).

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

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

	2014	2013
	£000	£000
Within 1 year	3,762	2,793
Between 1 & 5 years	13,291	9,293
After 5 years	24,750	19,083
	41,803	31,169

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

	2014	2013
	£000	£000
Within 1 year	2,769	3,260
Between 1 & 5 years	10,068	6,377
After 5 years	6,942	1,529
	19,779	11,166
Operating lease rentals charged to profit or loss during the year	3,920	4,044
Total future minimum sublease payments expected to be received under non-cancellable subleases	-	68

35 Parent and subsidiary undertakings

Ultimate parent company and controlling party

The Company is a wholly-owned subsidiary of Allchurches Trust Limited, a company incorporated in England. Its ultimate parent and controlling company is Allchurches Trust Limited, for which copies of the financial statements are available from the registered office as shown on page 2. The parent companies of the smallest and largest groups for which group financial statements are drawn up are Ecclesiastical Insurance Group plc and Allchurches Trust Limited, respectively. All the entities listed are included within the consolidated financial statements. Voting rights are in line with the holdings of Ordinary shares.

The Company's interest in Group undertakings at 31 December 2014 is as follows:

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

36 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
2014			
Group			
Trading, investment and other income, including recharges, and amounts received	214	-	895
Trading, investment and other expenditure, including recharges, and amounts paid	-	-	3,182
Amounts owed by related parties	-	-	147
Amounts owed to related parties	-	-	40
Parent			
Trading, investment and other income, including recharges, and amounts received	-	16,584	-
Trading, investment and other expenditure, including recharges, and amounts paid	-	235	80
Amounts owed by related parties	-	64	80
Amounts owed to related parties	-	19,458	-
2013			
Group			
Trading, investment and other income, including recharges, and amounts received	197	-	893
Trading, investment and other expenditure, including recharges, and amounts paid	-	-	2,243
Amounts owed by related parties	-	-	630
Amounts owed to related parties	11	-	-
Parent			
Trading, investment and other income, including recharges, and amounts received	-	781	-
Trading, investment and other expenditure, including recharges, and amounts paid	-	177	-
Amounts owed by related parties	-	106	-
Amounts owed to related parties	-	15,258	-

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.

37 Non-adjusting events after the reporting period

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 for consideration of £6,084,000, of which £5,260,000 was received in cash, with retentions of £824,000 payable over the next seven years.

At the year end date, the assets were classified as held for sale (see note 27). On completion of the transfer of business, a loss of £19,000 was realised on disposal.