Company Number 24869

ECCLESIASTICAL

ECCLESIASTICAL INSURANCE OFFICE plc

2007 ANNUAL REPORT

Ecclesiastical Insurance Office plc

2007 Annual Report

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Ecclesiastical Insurance Office plc

Group Financial Highlights

	2007 £million	2006 £million
Gross premiums written		
General business	**365 7**	358 3
Long term business	**21 2**	45 0
Total	**386 9**	403 3
Profit before tax	**35 6**	77 1
Profit attributable to equity holders	**26 3**	54 6
Total shareholders' equity	**362 1**	345 0
Total assets	**1,556 0**	1,460 4

Ecclesiastical Insurance Office plc

Chairman's Statement

2007 saw good progress in what was a more difficult year than the previous four Ecclesiastical's financial position strengthened again with shareholders' funds reaching a new all-time high at £362 1 million despite a fall in profit before tax to £35 6 million

Insurance markets around the world remained generally very competitive with further price reductions in most lines of business Claims experience was significantly affected by weather events, a rise in theft of metal claims and general claims inflation Whilst we managed a very creditable result, investment conditions became increasingly turbulent as the 'credit crunch' unfolded Overall we performed well in the difficult conditions while behind the scenes we continued to position ourselves to take advantage of future opportunities in the market

Group financial highlights for the year are shown on page 2 I alluded above to claims experience and of course this year has seen several severe weather events, including the exceptional floods in June and July The July storms affected our Gloucester offices which were flooded and without mains water for some ten days Our staff reacted magnificently, working together with great spirit and determination to ensure our standard of customer service did not deteriorate This event confirmed that our disaster recovery plans worked well

In last year's Review of Operations we mentioned that there were early signs of the theft of metal becoming more serious At that stage we had started to give our customers advice on managing the risk, but little did we realise exactly what a serious problem it was to become The trend worsened during the early part of the year and deteriorated rapidly as the worldwide demand for lead, copper and other metals accelerated and commodity prices soared We have been in active contact with churches, working closely with archdeacons, English Heritage and various church bodies in an effort to help affected customers stem losses In addition, we supported campaigns to increase vigilance, improve security measures and help track down offenders In particular we were pleased to launch a scheme to mark at-risk metal with the 'SmartWater' product which allows metals to be traced even after they have been melted down We continue actively to consider other ways of managing this form of crime

Over the last two years we have seen exceptional profits and in some ways 2007 can be seen as a return to normality During these exceptional years we have been pleased to be able to make special payments to Allchurches Trust As these payments are determined retrospectively, £5 5 million was paid in the year out of 2006 profits In addition, our 2007 annual grant of £4 2 million was supplemented by a special grant of £3 0 million, bringing the total amount in the year to £12 7 million

It is worth stating that our policy for making grants remains unchanged We believe it is right that we make grants at a sustainable level over the normal underwriting cycle Our goal is to develop our business so that this level can be increased above the rate of inflation, consistent with the development of the group

We remain committed to providing profit and service to the Church and other communities we serve We believe the service we offer and the attitude we display to all our customers, as well as our special skills and expertise differentiate us from other insurers This was reaffirmed in our strategy review in 2007, which also recognised the need to continue making sure our operations are fit for the modern world There is much still to be done in a world that does not stand still

Having given our brand a new face in 2006 we also launched a new product targeted at special old buildings - heritage property It was a great pleasure to win the British Insurance Award for this product in July as the best marketing initiative in the UK insurance industry

On 1 November 2007 we launched Ecclesiastical Financial Advisory Services, refocusing our financial services business on the giving of advice rather than the manufacture of products This allows us to sell Ecclesiastical products where they are the most suitable but also to offer other companies' products where appropriate for our customers

Ecclesiastical Insurance Office plc

Chairman's Statement

We continue our links with the Children's Society, English Heritage and various local deserving causes We won the award for Best Employer and Charity Promotion in the National Payroll Giving Awards for the successful "magic" campaign we ran in partnership with The Children's Society There is more to do as we enter the second year of our long term agreement and we look forward to further progress Our wider community involvement is covered in the Community and Social Responsibility section of the Group Chief Executive's review of operations

The regulatory framework continues to develop We are aware that Solvency II, the European directive for the future regulation of insurers is still being developed and we have played our part in the discussions It is important that the directive does not place an undue burden on smaller companies We support the FSA's continued move to principles-based regulation

We continue to support the Association of British Insurers in its lobbying for proper consideration of climate change and the consequences of more volatile weather patterns In particular we urge the Government to continue to spend money on defences against floods which have proved so expensive to the insurance industry this year It is the Government's responsibility to ensure that planning policies are prudent in this regard and to ensure that infrastructures are properly maintained We support plans for carbon reduction and the sustainable environment

There have been two changes in membership of our board during 2007 Firstly, Graham Doswell handed over the reins as Group Chief Executive to Michael Tripp on 1 January After careful planning and with the support of all our key people, I am glad to say that the transition has been smooth and well received The energy and enthusiasm Michael is bringing is self-evident in his review of operations We have undertaken a top-down strategic review of activities and reaffirmed the importance of building on our specialist skills The board has been actively reviewing priorities We have a clear view which ensures Ecclesiastical is well positioned against our competition, building on its historic role We are pleased with the progress we have made so far but recognise that there is still much to do

We welcome John Hylands in place of Peter Clark, whose untimely death in June 2006 was mentioned last year John joins us from an executive role at Standard Life, he is active in the actuarial profession and has a wealth of operational and financial management experience

Since the year-end there have been two further board changes

Dieter Losse retires as Deputy Chairman after 5 years on the board Dieter made a great contribution during his time on the board, bringing a wealth of experience in the industry, and serving as Chairman of the Remuneration Committee, and as a member of the Group Audit Committee, the Finance & Investment Committee and the Appointments Committee

We welcome back Sir Philip Mawer who rejoins the board after an absence of more than 5 years serving as the Parliamentary Commissioner for Standards

We have made a number of changes to membership of various board committees in order to continue the process of strengthening our corporate governance and to ensure proper succession in the years ahead These are mentioned in detail in the directors' report

In conclusion 2007 has been a year of challenge and change It has not been the easiest of years but we have made good progress in further developing Ecclesiastical so that it is strongly placed to succeed in today's competitive world As already mentioned our staff have exceeded themselves this year and I thank them most warmly for all they have achieved Their attitude is exceptional and we believe that their desire to help all our customers is unrivalled in our industry My fellow directors and I have great confidence in the future for Ecclesiastical Insurance group

Nick Sealy
Chairman

Ecclesiastical Insurance Office plc

Directors and Executive Management

Directors

* N J E Sealy FCA *Chairman*
* The Rt Revd N Baines BA *Bishop of Croydon*
* D Christie BA, BSc (Econ) Dip Ed
* M D Couve BComm, LLM, MA Law, Solicitor
* J F Hylands FFA
* Sir Philip Mawer DLITT, LLD
* The Venerable N Peyton MA, BD, STM *Archdeacon of Newark*
G A Prescott BA, FCA *Deputy Group Chief Executive*
* W M Samuel BSc, FCA
M H Tripp BSc, ARCS, FIA *Group Chief Executive*
S A Wood BSc, FCII *Managing Director, UK & Ireland*

Executive Management

M H Tripp BSc, ARCS, FIA *Group Chief Executive*
G A Prescott BA, FCA *Deputy Group Chief Executive*
K Bogue MA, FIA
M E Hindley
F J Holland MBCS
M A Mintram BSc, DipM
J W Nickson BCom, FCA, ACII
W G Shearn BA, FCII
S A Wood BSc, FCII *Managing Director, UK & Ireland*

Company Secretary

Mrs R J Hall ACIS

Registered and Head Office

Beaufort House,
Brunswick Road,
Gloucester GL1 1JZ
Tel 01452 528533

Company Registration Number

24869

Principal London and Investment Office

19-21 Billiter Street,
London EC3M 2RY
Tel 020 7528 7364

Auditors

Deloitte & Touche LLP,
London

Consulting Actuaries

Watson Wyatt Limited,
London

Solicitors

Speechly Bircham LLP,
London

Registrar

Computershare Services PLC,
PO Box 82,
The Pavilions,
Bridgwater Road,
Bristol BS99 7NH

* *Non-Executive and Independent Directors*

Ecclesiastical Insurance Office plc

Directors' Biographies

N J. E. Sealy

Chairman

Appointed to the Board in 1999 and became Chairman in June 2003 He retired as Chairman of Smith & Williamson a firm of Chartered Accountants and a banking and investment house in 2000 and as Non-Executive Director in 2005 He has recently been appointed to the Board of the Charities Investment Managers Ltd and a Trustee of Charibond

Aged 69

N. Baines

Bishop of Croydon

Appointed to the Board in 2002 Prior to ordination he was a professional government linguist He has served on the General Synod of the Church of England and was in parochial ministry before being appointed Archdeacon of Lambeth in 2000 He was appointed Bishop of Croydon in May 2003 He is a writer and broadcaster

Aged 50

D Christie

Appointed to the Board in 2001 He retired as Warden of St Edward's School Oxford in 2004 Previously he taught and researched in economics in schools and universities in the United Kingdom and Europe He is a governor of several schools and trustee of other charities

Aged 65

M. D. Couve

Appointed to the Board in June 2006 Consultant with Speechly Bircham Solicitors and a former senior partner of that firm He is a director of Shires Income plc and a Trustee of the English National Opera Trust

Aged 60

J. F Hylands

Appointed to the Board in September 2007 Until March 2007 he was an Executive Director of Standard Life plc He is Chairman of the trustees of the Standard Life and BOC pension schemes a member of the Norwich Union With Profits Committee and a school governor He is a Vice-President of the Faculty of Actuaries

Aged 56

P. J. C. Mawer

Re-appointed to the Board in February 2008 (having served previously from 1996-2002) Formerly Secretary General of the General Synod of the Church of England (1990 2002) and of the Archbishops Council Parliamentary Commissioner for Standards 2002-07 Currently the Prime Minister's Independent Advisor on Ministers Interests Patron or trustee of various charities

Aged 60

N. Peyton

Archdeacon of Newark

Appointed to the Board in 2005 He served in parochial ministry and as diocesan ministry development advisor before being appointed Archdeacon of Newark in 1999 A Nottingham magistrate until 2003 he has served on the General Synod of the Church of England and several of its commissions and committees since 1995

Aged 57

G A. Prescott

Deputy Group Chief Executive

Appointed as Executive Director in 1995 and became Deputy Group Chief Executive in 2005 He serves on the investment committees of the Save the Children Fund and the Worshipful Company of Coopers He is a Director of Mapfre Re and JP Morgan Cazenove Pension Trustee Limited

Aged 63

W. M. Samuel

Appointed to the Board in January 2006, he is a Vice Chairman of Lazard & Co Director of Edinburgh Investment Trust Chairman of Galiform Plc and Deputy Chairman and Senior Independent Non-Executive Director of Inchcape Previously he was a Director of Schroder plc and Vice Chairman of Investment Banking of Citigroup Europe

Aged 56

M. H. Tripp

Group Chief Executive

Appointed Group Chief Executive in January 2007 Previously Partner at Ernst & Young and Watson Wyatt before that with Guardian Royal Exchange His other directorships include The Baptist Insurance Company plc

Aged 52

S. A. Wood

Managing Director UK & Ireland

Joined the group in September 2005 and is responsible for General Insurance Business in the UK and Ireland Appointed to the Board in January 2006

Aged 47

Ecclesiastical Insurance Office plc

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2007

Group Chief Executive's review of operations

Writing my first review at the end of a challenging year, it is pleasing to be able to report a satisfactory financial result coupled with some significant underlying improvements to the way Ecclesiastical operates

The year was turbulent, with market competitive pressures, broker consolidation, exceptional weather claims, the highest theft of metal claims in history and the 'credit crunch' all contributing Notwithstanding, we achieved a modest increase in general business gross written premiums to £365 7 million, a respectable profit of £35 6 million before tax and an increase in shareholders' funds to £362 1 million In addition we paid a total of £12 7 million to our owners Allchurches Trust They in turn use this in support of Church of England Cathedrals, Dioceses and other charitable causes

Our rating agencies (Standard & Poor's and A M Best) have both recognised our added emphasis on modernisation, alongside our determination to remain committed to our values The movement by Standard & Poor's to a positive outlook was especially encouraging, recognising our continuing excellent progress, our focused strategy and our balance sheet strength

First impressions are important My first impressions in January 2007 were that Ecclesiastical is staffed by a remarkable group of people dedicated to providing exceptional service and advice to customers We are a group with unique skills based around a specialist focus, and one that has developed long-standing relationships with the Church, key customers and business partners These initial impressions have withstood the test of time and represent, for me, what makes Ecclesiastical different, thereby providing a clear and sustainable competitive advantage on which to build a robust strategy

A top down review of the group's strategy was initiated at the start of 2007 Working closely with our board and a wide range of management, we have built upon work undertaken during the relaunch of our customer brand experience in late 2006 That is to focus on developing our specialist skills and market position in key niches, concentrating on those people and organisations that care for others and are meaningful in the world around them the Church, education, care, charities and heritage buildings The strategic review determined specific objectives based on three key themes which build on the mission, vision and values agreed in 2006, in order that we can improve our competitive positioning and, ultimately, what we can deliver to Allchurches Trust The themes are to be first choice for customers, to have an energetic and empowered culture and to set stretching financial goals

The drive to be first choice for customers embraces the need to have an in-depth knowledge of our customers, tailoring our proposition and thereby improving our products and services It means continuing to sharpen operational delivery by introducing additional services to be provided by our risk survey force Building on our successful brand relaunch it reinforces the importance of our attitudes and values (enthusiastic, caring, expert, proactive and honest) We will work ever closer with our intermediary business partners and together ensure that our customers fully benefit from the added value and specialist knowledge we offer Finally, we will not lose our focus on maintaining underwriting disciplines or on being true to our ethos

One of our major thrusts is raising the energy levels within the organisation, and increasing its capacity for change A number of refinements were made to key management roles and responsibilities To bring greater cohesion into our general insurance businesses Steve Wood was appointed as Managing Director UK and Ireland To sharpen our strategic development Graham Shearn was appointed Group Development Director, and to improve the professionalism of our risk management Kevin Bogue was appointed as Group Actuarial and Risk Director To give greater accountability to our international businesses John Peberdy (Australia) and Jacinta Whyte (Canada) now report directly to the Group Chief Executive Much effort has been put into preparing our leaders to manage ongoing change, and raising the profile of their role in being owners and agents for improvement We are working with Ashridge Management College to put our top 100 leaders through a tailored programme, which will be completed by September 2008

Ecclesiastical Insurance Office plc

Directors' Report

As well as developing our leadership cadre, specific work has been started around staff engagement, working across international boundaries with common centres of excellence, becoming more customer centric, simplifying our processes (and hence improving customer service whilst reducing our expense base), delivering more than just insurance as our core proposition and starting to refine our organisational design We have generated a greater common sense of purpose, and aligned our energies more directly at achieving a widely shared vision Our annual staff survey showed continuing high levels of engagement and confidence in the future of our business This is an excellent foundation on which to move forward Much has been achieved, and although there is more to do, it is encouraging to see there is plenty of momentum and goodwill to make Ecclesiastical simply the best specialist insurer

During the year we also started to look at the shape of our organisation and, in particular, aspects of our support functions To compete successfully requires continual improvement and Ecclesiastical is not immune from the need for ongoing change We are moving towards a way of working that is truly one of continuous improvement, one where we will always be fit for purpose and able to exploit our clear differential strengths

Group overview

After adjusting for the one-off effect of the transfer of in-force life business from the National Association of Funeral Directors of £25 6 million in 2006, group gross written premiums rose by 2% to £386 9 million Given the market circumstances and competitive pressures this was more than satisfactory We developed some key new business opportunities, but in order to maintain underwriting discipline, we reluctantly had to let one or two significant accounts go as the market offered what, in our view, were clearly uneconomic prices

General Insurance – United Kingdom and Ireland

2007 was a challenging year in the UK general insurance market, with soft rates, weather events and theft of metal claims, excess capacity and fundamental shifts in distribution, all contributing to reduced margins and our combined operating ratio rose to 102 9% (2006 88 5%) Consolidators such as Towergate had a dominating effect on the strategies of brokers and insurers throughout the year Distribution has become a key battle ground with some of the larger insurers being aggressive buyers of a number of key brokerages All property accounts suffered significant weather losses this year, with the storms in January and the floods in the summer being largely insured, rather than reinsured, events As a consequence, the Association of British Insurers have stepped up their dialogue with the Government regarding flood risks

The rating environment remained weak all year across almost every class Signs of strengthening in our motor fleet business at the start of the year were not sustained Property rates have been particularly competitive, with liability holding up a little better As we move into 2008 there has been no obvious sign of a shift in attitude Competition remains intense, particularly so, for larger blocks of business We maintained strong underwriting standards overall, believing it is better for our customers not to experience violent rating movements

An increase in theft of metal as a consequence of higher prices had a significant effect on our results But for weather and theft of metal losses, underlying performance held up well This reflects our approach of clearly focusing sales and underwriting attention on our niche markets of faith, care, charity, education and heritage The liability account had a strong year with a healthy underwriting profit, reflecting our selective approach and avoidance of heavy industrial exposures

We were pleased to note that 119 Anglican Parish Churches moved to us All major accounts with Diocesan Boards of Finance schemes, Cathedrals, Greater Churches and Royal Peculiars were renewed We were pleased to welcome the Plymouth Roman Catholic Diocese scheme Our new drive for heritage risks also reaped rewards Among the business wins we celebrated in 2007 were the National Trust for Scotland and some of our nation's finest stately homes, country houses, heritage schools and nationwide charities such as Great Ormond Street Hospital Children's Charity We also strengthened our relationship with the National Association of Funeral Directors

The redevelopment and launch of a number of products during the year including Parishguard, Hallguard, Charity, Direct Home and Heritage demonstrates the level of energy in our business It was satisfying to celebrate winning the Marketing Initiative of the Year for our Heritage product at the British Insurance Awards in July The 'best insurer' ratings from the annual broker tracking survey (contributed to by 400 brokers), placed us No 1 in each of our non-faith niches We put considerable effort into the launch of Ecclesiastical Risk Services in January 2008 under the management of David Leavesley, a fully independent risk management company that offers a consultancy service to help organisations identify and manage risk effectively

Directors' Report

During the year we took the opportunity to better align our management of the Methodist and Baptist insurance companies, to ensure that, whilst retaining their separate business bases, they have the full advantage of our expertise and services Our UK subsidiary, Ansvar Insurance, had an excellent year making good progress in the charity sector and demonstrating pace for getting new products launched in line with its unique brand and values In Ireland, Ronan Foley was appointed as general manager to succeed Desmond Campbell, who retired after 27 years loyal service The business was relaunched in October under our new brand and there are already signs emerging of a revitalised reputation Control of our Northern Ireland business was transferred to Dublin, and this has been very positively received in the market

We closed our regional Underwriting Centre in Cambridge to obtain the benefits of scale from combining with our Birmingham office The transition was successfully managed without any adverse reaction from brokers or customers Particular thanks are due to Geoff Merriman, Tony Bloomer and the team in Birmingham

General Insurance - International

International business underwritten by Ecclesiastical is sourced from overseas subsidiaries, branches, our London market operation and from reinsurance accepted from other companies around the world

Market conditions for our Ansvar subsidiaries in both Australia and New Zealand remained tough, with continued rating pressures fuelled by both the scope for reductions given recent years' profits, and the demand for growth There is some hope that Australian rates will move forward in 2008 In local currency terms, premiums advanced 5 7% at the gross level in Australia and 5 1% in New Zealand The quota share group reinsurance arrangement implemented last year to enhance capacity proved effective, and overall a very small net underwriting loss emerged

The real challenge arose from poorer than expected claims experience in both countries, mainly due to a rise in frequency, but in particular a higher incidence of large claims than in recent years Significant weather events included June storms in the Hunter region and the Lismore hailstorm in Australia, and the Upper North Island floods and Gisborne earthquake in New Zealand

Despite these challenges both companies strengthened their reputations as specialists, and have now been firmly rebranded as Ansvar This name change has resulted in reduced market confusion and more focused marketing efforts It was particularly pleasing that Ansvar Australia was awarded the prestigious ANZIIF award for Service to the Community We were also delighted to celebrate Ansvar's 25th anniversary in New Zealand

Our Canadian branch has completed its turnaround and come of age as a clear specialist in similar niches to the rest of the group The experienced local team, led energetically by Jacinta Whyte, reaped the fruits of several years hard work with premiums growing by 9 8% in local terms, some well deserved new business wins and an underwriting profit The relationship with the Anglican Church in Canada blossomed and non-faith successes included the Canadian Museums Association programme The claims environment was benign and expenses remain controlled, but include an element of investment for the future

Our small, but very well regarded London market operation, Ecclesiastical Underwriting Management Limited, had continued success Business written in 2006 produced a very good out-turn and, while 2007 was more competitive, the early signs remain encouraging

Financial Services

Most life insurers experienced sales growth in 2007, with third quarter industry results showing 16% growth over the first nine months The Investment Management Association revealed gross retail sales up 22% over the first 11 months of 2007, although closer inspection shows there was less new money than over the same period in the previous year

We too had a good year, with our gross written premium reaching £21 2 million, which exceeded our 2007 sales plan This is particularly impressive given the scale of underlying change we introduced during 2007 The 2006 figure was buoyed by £25 6 million from the acquisition of the funeral planning arrangement Direct sales, including both our face to face activity and our new telephone advisory function were both successful Our 'non-advised' offering through the telephone sales team performed particularly well

Our IFA business remains small, although we believe clarifying the ethical nature of our investment policy will help in 2008 Our occupational and group pension scheme business also performed beyond our expectations Other schemes remain small, but looking for opportunities aligned to our overall niche strategy remains part of our business objectives

Ecclesiastical Insurance Office plc

Directors' Report

At the start of the year we announced our intention to stop manufacturing mortgages and announced that we would be selling the Hinton & Wild equity release business, the sale was completed in September We continued implementing our strategy review and, taking advantage of the new de-polarisation regulations, we remodelled our direct sales force as a multi-tied advisory service, offering a greater range of products than those provided through Ecclesiastical Life Limited We signed up with Bankhall as our service provider, and launched Ecclesiastical Financial Advisory Services on 1 November 2007

The long term business result for the year was adversely impacted by changes to mortality and other assumptions, contributing to a loss before tax of £4 3 million (£3 5 million profit in 2006)

Investments
Our investments performed excellently in a very unsettled year which will long be remembered as the year of the 'credit crunch' After a generally strong start to the year which pushed many indices to new all time highs, investor confidence was severely shaken by a credit and liquidity crisis which originated in the US but was rapidly transmitted across the financial system of many countries Despite these financial losses, economic growth in developing economies remained robust, and overall most major stock markets provided positive returns for investors

The FTSE All Share Index rose by 2 0% over the course of 2007, with a gain of 3 8% in the FTSE 100 Index of larger companies in marked contrast to the respective falls of 4 7% and 12 4% in the Mid Cap and Smaller company indices The Monetary Policy Committee raised base rates three times during the first seven months of 2007, as strong global growth and rising commodity prices helped to keep inflation above the Bank of England's target rate During the latter part of the year, the credit crisis began to spiral and gilt yields shifted sharply downwards as investors sought safety in quality

UK Fixed interest stocks as measured by the FTA Gilt Allstock Index produced a total return of 5 3%, reflecting 4 4% income yield and a capital return of 0 9% Ecclesiastical funds achieved investment returns ahead of their respective benchmarks with particularly strong performance from overseas equities Our generally prudent investment policy resulted in less exposure than many to those banks which suffered losses Our international holdings performed well and, especially in the Far East, we reaped the rewards of taking gains by selling in early autumn

The total net investment return (including investment income and net fair value movements) was £69 4m (£94 0m in 2006) This included a 4% increase from 2006 in general business net investment return to £47 9m and a decline in the long term business net investment return to £14 9m

Looking forward, many of the issues that served to unnerve investors over the closing months of 2007 continue to be a source of uncertainty into the New Year Of crucial importance is the extent to which the credit crisis currently gripping Western financial markets can be contained, and the ability of strong growth in developing economies to make up for shortfalls in demand from the US and other developed countries All told, volatility in financial markets is expected to remain above the levels of recent years Our investment strategy entering 2008 remains one of caution with portfolio cash levels close to all-time highs

Risk management and controls
Our risk framework is owned by the board who have responsibility for risk management strategy and processes, as well as for identifying key risks and determining our approach to them A driving element is a thorough risk appetite statement bringing together individual capital assessment work with a series of key risk indicators During the year we strengthened our risk management by reinforcing the important top down strategic review, clarifying risk policy statements and embedding risk thinking in senior leaders' roles

Our response framework remains, firstly, management, where we enhanced the sign-off by senior leaders, secondly, controls and indicators against a systematic assessment of risk, and thirdly, independent assurance where our internal audit and group audit committee processes were further tightened, having a first full year of co-sourced internal audit support form Mazars

During the year we aligned our risk management and capital modelling expertise under a newly formed Group Actuarial and Risk Directorship We continued previous work in enhancing the professionalism of our risk management activities In particular we raised strategic awareness so that risk management has started to be fully embedded in our culture At the same time, we completed our first stochastic model Risk management requires a clear understanding of controls, and assurance that such controls are working properly Substantial progress was made in articulating the controls environment and using our internal audit function to review its effectiveness

Clearly key risks for Ecclesiastical include management of gross insurance risk, reinsurance and market risk Reinsurance remains a key part of the way we manage our insurance risk and we continue to maintain and strengthen our relationships through open dialogue We appreciated the way our long term business partners reacted to the 2007 weather claims and are pleased to report the renewal of our 2008 programme was successfully concluded

Ecclesiastical Insurance Office plc

Directors' Report

We were provided with a real life test of our business continuity plans when our head office in Gloucester was itself affected by the July floods, being without mains water for ten days We were delighted with the way our business continuity plan operated, providing a solid framework for managing the crisis It is also worth noting the way that our staff pulled together to maintain our usual excellent service levels As an example in Commercial insurances 93% of customers indicated that they were either extremely or very satisfied (93% in 2006) and in Personal lines 89% (86% in 2006)

In regulatory developments, the Financial Services Authority (FSA) has shifted its focus through the year from 'Contract Certainty' to 'Treating Customers Fairly' and 'Conflicts of Interest' Insurers who can evidence strong control disciplines and a culture which is based on integrity and fair treatment have little to fear There are some signs that the focus may shift more to intermediaries' systems and controls, although commission disclosure seems to be fading away, certainly for consumer/retail markets and possibly altogether

In Australia it was thought that APRA, the equivalent of the UK's FSA, would shift its attention away from general insurance to superannuation, but in the end there was further proposed regulatory reform in 2007 focusing on policyholder protection New regulations will be introduced from 2008 to bring 'Direct Offshore Foreign Insurers' under a tighter disclosure regime There is concern that a considerable amount of premium leaves Australian shores each year via unlicensed insurers

Community and social responsibility
Our aim is to support the communities where we operate by giving something back and acting as a responsible neighbour For example in Gloucestershire we raised our profile in the local community through membership of Gloucester Chamber of Commerce and chair of the Gloucestershire Economic Urban Strategy We sponsored the Local Hero award in the inaugural Pride of Gloucestershire Community Awards and we supported the Severn Sound Carol Concert in Gloucester Cathedral (where the Ecclesiastical choir took part in the service!)

More generally we were pleased with the way our relationship with the Children's Society flourished, for instance through sponsoring Footsteps for Childhood, their series of fundraising walks, and through sponsoring the Society's garden at the Chelsea Flower Show

Our staff also give much of themselves in supporting other local community minded charities including The Greenbelt Christian Festival at Cheltenham, Gloucester Youth Housing Association, Headway, The Family Haven and Milestone School

Our UK subsidiary, Ansvar Insurance, sponsored charities promoting positive lifestyles, such as Hope UK, Care for the Family, and the Global Rock Challenge In Australia, our subsidiary supported 64 youth based community education programmes aimed to assist young people develop a positive attitude to life Our Canadian business sponsors five children in developing nations through World Vision Canada Staff in Canada served lunch to 300 people at The Scott Mission, a service for the homeless in Toronto Our Irish business has selected Barnardo's as their chosen charity Last, but certainly not least, we gained a national award for our successful salary payroll giving scheme

We aim to help protect the environment through continually improving our environmental performance and reducing pollution To improve our approach to environmental matters we set up an environmental strategy group to look at environmental and sustainability issues In Gloucester, we switched to green energy suppliers, who invest their profits in renewable sources of energy By taking simple steps such as turning off computer monitors and other electrical equipment at the end of the day, switching off lights, closing windows and other measures we estimate we have saved enough electricity to power 60 average domestic British homes for a year

Recycling schemes are in place in our Gloucester office for paper, cardboard, cups, print and toner cartridges, office furniture, batteries, and postage stamps Our principal London office won a Gold Award in the City of London's Clean City Award Scheme The Award Scheme recognises good practice in recycling and effective waste management

We promoted environmentally friendly transport, using a taxi firm that only uses green hybrid vehicles, introducing a bike to work scheme, sponsoring the reprint of the Gloucester cycle map and continuing our sponsorship of the park and ride bus service in Gloucester We also achieved a 20% reduction in paper consumption by setting printers and photocopiers to print double sided as default

Conclusion
There's no doubt it has been a difficult year for the entire industry, but I'm delighted that we've weathered the storm We have produced a respectable profit, further bolstering our shareholders' funds and strengthening our financial position for the future We have made good progress towards our goal of being first choice for customers I am confident we are on the right journey, creating a solid base for growth and we continue to look forward to a positive future

Michael Tripp
Group Chief Executive

Ecclesiastical Insurance Office plc

Directors' Report

Principal activity
The principal activity of the group is the transaction of most forms of general and long term insurance in the United Kingdom and overseas A list of the company's main subsidiary undertakings is given on page 82 and details of international branches are shown on page 85

Ownership
At 26 March 2008 all the issued Ordinary share capital of the company and 9 0% of the issued 8 625% Non-Cumulative Irredeemable Preference shares were owned by Ecclesiastical Insurance Group plc In turn, the entire equity capital of Ecclesiastical Insurance Group plc was owned by Allchurches Trust Limited

Board of directors
The board comprises the chairman, Mr N J E Sealy, seven other non-executive directors and three executive directors and has ten scheduled meetings each year The board is responsible for the overall strategic direction of the group Executive management of the group is delegated to the Group Chief Executive and executive management team

The directors of the company at the date of this report are stated on page 5

The Rt Revd N Baines, the Venerable N Peyton and Mr W M Samuel retire by rotation and, being eligible, offer themselves for re-election

Sir Philip Mawer was appointed to the board on 4 February 2008 Mr J F Hylands was appointed to the board on 1 September 2007 In accordance with the Articles of Association, they will retire at the forthcoming annual general meeting and, being eligible, offer themselves for election

Mr D R Losse resigned from the board on 26 March 2008 The directors wish to convey their gratitude for his contribution to the board

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

The board has an established group audit committee, an appointments committee and a remuneration committee, details of which are given below

The directors held no beneficial interest in any shares or debentures of the group during the year ended 31 December 2007 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

Corporate governance
The Ordinary shares of the company are not quoted on the London Stock Exchange and therefore its operations do not come within the ambit of the Combined Code adopted by the London Stock Exchange However, the board of directors of the company intends and believes that the affairs of the company should be conducted in accordance with best business practice, and uses the Combined Code, by which London Stock Exchange quoted companies are measured, to review performance in this area

Group audit committee
The group audit committee comprises the following non-executive directors, appointed by the board

W M Samuel (Chairman)	D R Losse (until 26 March 2008)
M D Couve	J F Hylands

The committee had five scheduled meetings during the year and deals with accounting, legal and compliance, internal control and security matters, reviews the group's annual results and the work and reports of internal and external auditors

Appointments committee
The appointments committee comprises the following non-executive directors, appointed by the board

N J E Sealy (Chairman)	D R Losse (until 26 March 2008)
D Christie	

The committee meets periodically to review the structure, size and composition of the board and to evaluate the directors' skills, knowledge and experience The committee considers the leadership needs and succession planning of the group when making decisions on new appointments

Remuneration committee
The remuneration committee comprises the following non-executive directors, appointed by the board

D R Losse (Chairman, until 26 March 2008) The Venerable N Peyton
M D Couve

The committee meets when necessary to determine the conditions of employment and pay and benefits of the chairman, each of the executive directors and the executive management team

Remuneration policy
The group's objective is to provide competitive remuneration packages, relevant to the particular market in which it operates, that will attract and retain high calibre employees and will encourage and reward superior performance

The group's policies are aimed at meeting those objectives and ensuring that all employees are rewarded fairly for their individual contributions to its performance

Executive directors and executive management
The remuneration of the executive directors and executive management team comprises a basic salary, pension contributions, annual and long term performance related bonuses (over rolling three year periods) and certain benefits in kind, including a company car or car allowance The other available benefit in kind is the provision of private medical insurance, which is on the same terms as for all eligible staff There are no other incentive or share option schemes Annual and long term performance related bonuses are ultimately at the discretion of the board

External professional advice has been sought in the process of determining appropriate remuneration packages

Pensions arrangement
Mr G A Prescott and Mr S A Wood are members of the group's defined benefits pension scheme

In accordance with the Scheme rules, a common retirement age of 63 applies to all members, and pensionable service accrues at a rate of one-eightieth of pensionable salary for each year of service up to a maximum of 40 years No pension benefits are accrued on bonuses or other benefits

Mr M H Tripp is a member of a new group defined contribution scheme introduced in 2006 and operated by Ecclesiastical Life Limited, a subsidiary undertaking

External directorships
External directorships are considered to be valuable in terms of broadening the experience and knowledge of executive directors, provided there is no conflict of interest and the commitment required is not excessive Such appointments are subject to the approval of the board Monetary payments received by executive directors from outside directorships are paid over to and retained by the employer

Internal controls
The board is ultimately responsible for the systems of internal controls maintained by the group The board reviews the effectiveness of the group's system of internal controls annually and considers it to be appropriate for the group The system of controls is intended to provide reasonable assurance, but not an absolute guarantee, against material errors, financial misstatements or loss The key features of the control systems are as follows

- The board approves financial, business and investment strategies and plans, reviews exposure limits and then monitors the results on a regular basis
- The group operates a comprehensive annual budgetary control system which monitors results against business plans on a monthly basis Business and investment reports are submitted regularly to the board, and financial results are reported to the board on a quarterly basis
- The group has an internal audit function whose role is to review and monitor the various control mechanisms The internal audit function has direct access to the Group Chief Executive and to the chairman of the group audit committee

Ecclesiastical Insurance Office plc

Directors' Report

Going concern
The board has satisfied itself that the group has adequate resources to continue in operation for the foreseeable future The group financial statements have, therefore, been prepared on the going concern basis

Dividends	**2007**	2006
Dividends paid were as follows	**£000**	£000
Irredeemable Preference shares - paid	**5,731**	5,553
Ordinary shares - interim paid	**550**	500
	6,281	6,053

The directors do not recommend a final dividend on the Ordinary shares (2006 £nil)

Charitable and political donations
Charitable donations paid and provided for by the Ecclesiastical group in the year amounted to £14 1 million (2006 £8 7 million)

During the last ten years, a total of £60 0 million (2006 £50 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 annual publication of financial reports Regular meetings are held between management and employees and discussion encouraged It is the group's policy to give full consideration to applications for employment by disabled persons Appropriate training is arranged for disabled persons, including retraining for alternative work of employees who become disabled, to promote their career development within the organisation

The group considers a number of key performance indicators in the assessment of its people strategy In addition to numeric measures, such as staff turnover and absenteeism, the group pays particular attention to the outcome of its annual staff satisfaction surveys, and has developed measures for assessing the success of its leadership and succession planning programmes

Policy on payment of creditors
It is the group's policy to pay creditors promptly and fully, in accordance with the terms of their contracts The group has not adopted any particular external code The number of days' purchases represented by the amounts due to trade creditors of the group at 31 December 2007, calculated in accordance with Schedule 7 of the Companies Act 1985, was 18 days (2006 15 days)

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

Auditor and the disclosure of information to auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself 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 234ZA of the Companies Act 1985

In accordance with Section 385 of the Companies Act 1985, a resolution proposing that Deloitte & Touche LLP be re-appointed as auditors of the company will be put to the annual general meeting

Non-audit work

The company does not impose an automatic ban on the auditor undertaking non-audit work The group's aim is to identify appropriate service providers and ensure that any non-audit work is carried out in a manner that affords full value for money The service provider must not be in a position of conflict in respect of the work in question and must have the skill, competence and integrity to carry out the work in the best interests of the company and the group

Auditors of the company are only permitted to perform audit-related and non-audit work if, in the opinion of the group audit committee, it is appropriate for them to do so and there are no actual or perceived independence issues

By order of the board

R Hall

Mrs R J Hall
Secretary

26 March 2008

Ecclesiastical Insurance Office plc

Statement of Directors' Responsibilities

The directors are responsible for preparing the annual report and the financial statements The directors are required to prepare financial statements for the group in accordance with International Financial Reporting Standards (IFRS) and have also elected to prepare financial statements for the company in accordance with IFRS Company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Acts 1985 and 2006 and Article 4 of the IAS Regulation

International Accounting Standard 1, *Presentation of Financial Statements*, requires that the financial statements present fairly for each financial year the company's financial position, financial performance and cash flows This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements' In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS Directors are also required to

- Properly select and apply accounting policies,
- State whether the financial statements have been prepared on a going concern basis,
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report which complies with the requirements of the Companies Acts 1985 and 2006 The directors are responsible for the maintenance and integrity of the company website

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Ecclesiastical Insurance Office plc

Independent Auditors' Report

Independent auditors' report to the members of Ecclesiastical Insurance Office plc
We have audited the group and individual company financial statements (the "financial statements") of Ecclesiastical Insurance Office plc for the year ended 31 December 2007 which comprise the consolidated income statement, the consolidated and individual company balance sheets, the consolidated and individual company cash flow statements, the consolidated and individual company statements of recognised income and expense and the related notes 1 to 40 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 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 auditors' 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 auditors
The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the other information contained in the annual report as described in the contents section and consider whether it is consistent with the audited financial statements We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any further information outside the annual report

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Independent Auditors' Report

Opinion

In our opinion

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs at 31 December 2007 and of its profit for the year then ended,
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs at 31 December 2007,
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation, and
- the information given in the directors' report is consistent with the financial statements

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
United Kingdom
26 March 2008

Ecclesiastical Insurance Office plc

Consolidated Income Statement

for the year ended 31 December 2007

	Notes	2007 £000	2006 £000
Revenue			
Gross written premiums	6	**386,915**	403,316
Outward reinsurance premiums	6	**(132,094)**	(121,093)
Net change in provision for unearned premiums	6	**(1,183)**	(4,170)
Net earned premiums	6	**253,638**	278,053
Fee and commission income	7	**37,990**	35,762
Net investment return	8	**69,396**	94,043
Total revenue		**361,024**	407,858
Expenses			
Claims and change in insurance liabilities	9	**(267,833)**	(231,965)
Reinsurance recoveries	9	**73,357**	50,118
Fees, commissions and other acquisition costs	10	**(70,563)**	(69,503)
Other operating and administrative expenses		**(56,986)**	(53,664)
Change in provisions for investment contract liabilities		**265**	(8,865)
Change in net asset value attributable to unitholders		**(1,097)**	(7,828)
Total operating expenses		**(322,857)**	(321,707)
Operating profit	11	**38,167**	86,151
Finance costs	14	**(832)**	(641)
Transfers to the unallocated divisible surplus		**(1,731)**	(8,399)
Profit before tax		**35,604**	77,111
Tax expense	15	**(9,348)**	(22,542)
Profit attributable to equity holders of the parent	27	**26,256**	54,569

Ecclesiastical Insurance Office plc

Consolidated and Parent Statement of Recognised Income and Expense

for the year ended 31 December 2007

	2007		2006	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
Net fair value (losses)/gains on property	**(39)**	**15**	559	130
Gain/(loss) on currency translation differences	**5,996**	**3,406**	(4,316)	(2,722)
Net income/(expense) recognised directly in equity	**5,957**	**3,421**	(3,757)	(2,592)
Profit for the year after tax	**26,256**	**27,295**	54,569	45,256
Total recognised income and expense for the year	**32,213**	**30,716**	50,812	42,664

Ecclesiastical Insurance Office plc

Consolidated and Parent Balance Sheets

at 31 December 2007

	Notes	2007 Group £000	2007 Parent £000	2006 Group £000	2006 Parent £000
Assets					
Goodwill and other intangible assets	17	**4,807**	**2,187**	5,396	2,580
Deferred acquisition costs	18	**31,751**	**23,012**	29,477	22,048
Deferred tax assets	34	**2,755**	**556**	2,220	730
Pension assets	19	**21,276**	**20,017**	18,281	17,219
Property, plant and equipment	20	**10,522**	**6,528**	10,533	6,519
Investment property	21	**33,558**	**28,432**	36,207	31,251
Financial investments	22	**972,792**	**487,606**	877,346	423,764
Reinsurers' share of contract provisions	29	**189,259**	**147,875**	160,773	132,484
Current tax recoverable		**3,012**	**2,235**	206	78
Other assets	23	**105,249**	**97,165**	85,539	79,116
Cash and cash equivalents	24	**181,003**	**107,780**	234,425	153,548
Total assets		**1,555,984**	**923,393**	1,460,403	869,337
Equity					
Share capital	25	**80,477**	**80,477**	80,477	80,477
Share premium account	26	**4,632**	**4,632**	4,632	4,632
Retained earnings and other reserves	27	**276,942**	**211,360**	259,900	195,815
Total shareholders' equity	28	**362,051**	**296,469**	345,009	280,924
Liabilities					
Insurance contract provisions	29	**909,469**	**536,885**	830,386	483,779
Investment contract liabilities	30	**54,919**	**-**	56,214	-
Unallocated divisible surplus	31	**39,836**	**-**	38,105	-
Finance lease obligations	32	**1,607**	**1,542**	1,695	1,535
Provisions for other liabilities and charges	33	**8,207**	**7,302**	6,671	5,906
Retirement benefit obligations	19	**11,452**	**11,452**	8,506	8,506
Deferred tax liabilities	34	**47,677**	**39,934**	50,077	40,843
Current tax liabilities		**1,807**	**-**	4,984	3,701
Deferred income	35	**16,662**	**12,220**	15,140	11,978
Other liabilities	36	**33,307**	**17,589**	41,596	32,165
Net asset value attributable to unitholders		**68,990**	**-**	62,020	-
Total liabilities		**1,193,933**	**626,924**	1,115,394	588,413
Total shareholders' equity and liabilities		**1,555,984**	**923,393**	1,460,403	869,337

The financial statements on pages 19 to 83 were approved by the board of directors on 26 March 2008 and signed on their behalf by

N J E SEALY Chairman

M H TRIPP Group Chief Executive

Ecclesiastical Insurance Office plc

Consolidated and Parent Cash Flow Statements

for the year ended 31 December 2007

	2007		2006	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
Profit before tax	**35,604**	**35,415**	77,111	63,595
Adjustments for				
Depreciation of property, plant and equipment	**1,975**	**1,488**	1,791	1,300
(Gains)/loss on disposal of property, plant and equipment	**(16)**	**(12)**	15	-
Amortisation of intangible assets	**1,250**	**863**	1,304	857
Net fair value gains on financial investments & investment property	**(11,075)**	**(13,022)**	(46,001)	(20,657)
Dividend and interest income	**(54,780)**	**(27,901)**	(47,165)	(21,914)
Finance expense	**832**	**152**	641	298
Changes in operating assets and liabilities				
Net increase in insurance contract provisions	**65,142**	**47,322**	71,014	34,243
Net increase in reinsurers' share of contract provisions	**(24,755)**	**(14,109)**	(12,573)	(8,421)
Net (decrease)/increase in investment contract liabilities	**(1,295)**	**-**	7,368	-
Net increase in deferred acquisition costs	**(1,461)**	**(556)**	(930)	(974)
Net increase in other assets	**(19,604)**	**(19,792)**	(7,884)	(11,636)
Net (decrease)/increase in operating liabilities	**(5,422)**	**(11,827)**	9,757	9,176
Net increase in other liabilities	**12,024**	**4,343**	24,204	2,446
Cash (used)/generated by operations	**(1,581)**	**2,364**	78,652	48,313
Dividends received	**13,318**	**6,199**	14,451	5,611
Interest received	**39,154**	**20,147**	34,976	18,115
Interest paid	**(832)**	**(152)**	(641)	(298)
Tax paid	**(14,197)**	**(10,778)**	(15,098)	(9,568)
Net cash from operating activities	**35,862**	**17,780**	112,340	62,173
Cash flows from investing activities				
Purchases of property, plant and equipment	**(1,609)**	**(1,070)**	(2,333)	(1,671)
Proceeds from the sale of property, plant and equipment	**75**	**12**	86	-
Purchases of intangible assets	**(573)**	**(411)**	(2,062)	(1,827)
Acquisition of subsidiary, net of cash acquired	**(905)**	**(1,250)**	-	-
Purchases of financial investments & investment property	**(339,961)**	**(126,938)**	(276,745)	(34,058)
Sale of financial investments & investment property	**280,507**	**85,806**	246,463	27,575
Net cash used by investing activities	**(62,466)**	**(43,851)**	(34,591)	(9,981)
Cash flows from financing activities				
Net proceeds from the issue of shares	**-**	**-**	4,340	4,340
Payment of finance lease liabilities	**(396)**	**(368)**	(444)	(349)
Repayment of other borrowings	**(8,750)**	**-**	-	-
Dividends paid to company's shareholders	**(6,281)**	**(6,281)**	(6,463)	(6,463)
Donations paid to ultimate parent undertaking	**(15,500)**	**(15,500)**	(5,200)	(5,200)
Net cash used by financing activities	**(30,927)**	**(22,149)**	(7,767)	(7,672)
Net (decrease)/increase in cash and cash equivalents	**(57,531)**	**(48,220)**	69,982	44,520
Cash and cash equivalents at beginning of year	**234,425**	**153,548**	169,301	112,801
Exchange gains/(losses) on cash and cash equivalents	**4,109**	**2,452**	(4,858)	(3,773)
Cash and cash equivalents at end of year	**181,003**	**107,780**	234,425	153,548

1 Accounting policies
The principal accounting polices 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 accounting policies set out below, which are in accordance with IFRSs applicable at 31 December 2007 issued by the International Accounting Standards Board and endorsed by the European Union The financial statements have been prepared on the historical cost basis, except for the revaluation of properties and certain financial instruments

In accordance with IFRS 4, *Insurance Contracts*, the group has applied existing accounting practices for insurance and participating investment contracts, modified as appropriate to comply with the IFRS framework and applicable standards

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

In the current year, the group has adopted IFRS 7 *Financial Instruments Disclosures* which became effective for annual reporting periods beginning on or after 1 January 2007 and related amendments to IAS 1 *Presentation of Financial Statements* The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures relating to the group's financial instruments and management of capital

The group has not adopted early IFRS 8, *Operating Segments*, which is effective for accounting periods beginning on or after 1 January 2009 IFRS 8 sets out the requirements for the disclosure of information about an entity's operating segments and about the entity's products and services, the geographical areas in which it operates and its major customers In addition, IFRIC Interpretation 11, *IFRS 2 Group and Treasury Share Transactions*, IFRIC Interpretation 12, *Service Concession Arrangements*, IFRIC Interpretation 13, *Customer Loyalty Programmes* and IFRIC Interpretation 14, *IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction* have been issued but are not effective for 2007 year ends These interpretations are not expected to impact on the group's results

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

Segment reporting
A business segment is an operation that provides products or services that are subject to risks and returns that are different from other business segments A geographical segment provides products or services within a particular economic environment that are subject to risks and returns that are different from other geographical segments

Basis of consolidation
Subsidiaries
Subsidiaries are those entities in which the group, directly or indirectly, has the power to govern the financial and operating policies in order to gain economic benefits The results and cash flows relating to subsidiaries acquired or disposed of in the year are included in the consolidated income statement and the consolidated cash flow statement from the date of acquisition or up to the date of disposal All inter-company transactions, balances and profits are eliminated

In the parent balance sheet subsidiaries are accounted for within financial investments at cost, in accordance with IAS 27, *Consolidated and Separate Financial Statements*

The group uses the purchase method of accounting to account for the acquisition of subsidiaries 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 date of exchange, plus costs directly attributable to the acquisition Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

1 Accounting policies (continued)

Investment vehicles

Investment vehicles such as mutual funds, where a group company controls more than 50%, are consolidated The minority interests in these vehicles are classified as liabilities and appear as net asset value attributable to unitholders in the consolidated balance sheet

Foreign currency translation

The consolidated financial statements are stated in sterling, which is the group's presentation currency The functional currency of the group's foreign operations is the currency of the primary economic environment in which these entities operate

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 income statement 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 in the income statement

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

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 These participating contracts are referred to as with-profit contracts in the financial statements Contracts that do not contain a discretionary participating feature are referred to as non-profit contracts in the financial statements

Amounts collected under investment contracts without a discretionary participating feature, referred to as investment contracts in the financial statements, are not accounted for through the income statement, except for the investment income attributable to those contracts, but are accounted for directly through the balance sheet as an adjustment to the investment contract liability

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

For insurance contracts, premiums are recognised as revenue when the liabilities arising from them are created All other premiums including annuity considerations are accounted for when due for payment

For investment contracts, amounts collected as premiums are not included in the income statement but are reported as deposits to investment contract liabilities in the balance sheet

Revenue from investment contracts

Fees charged for investment management services are recognised as revenue as 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

1 Accounting policies (continued)

Other fee and commission income

Other fee and commission income consists primarily of reinsurance commissions receivable, 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 Revenue from investment management fees and distribution fees is recognised when earned

Net investment return

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

Unrealised gains and losses on investments are calculated as the difference between carrying value and original cost, and the movement during the year is recognised in the income statement 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

Long term insurance business claims reflect the cost of all claims arising during the year and are recognised when payment is due For investment contracts, claims are not included in the income statement but are instead deducted from investment contract liabilities

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

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 balance sheet 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 balance sheet date Any estimate represents a determination within a range of possible outcomes Claims provisions are not discounted

(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 the income statement in order that revenue is recognised over the period of risk

(iii) Liability adequacy

Provision for unexpired risks is made where it is anticipated, on the basis of information available at the balance sheet date, that claims and administrative expenses are expected to exceed unearned premiums, after taking account of future investment income Unexpired risks are assessed separately for each class of business Surpluses and deficits are offset where business classes are considered to be managed together

1 Accounting policies (continued)

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

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 Integrated Prudential Sourcebook 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 The consequent long term business provision is grossed up for the impact of reinsurance

Claims

Maturity claims and annuities are charged against revenue when they become payable Surrenders are accounted for when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the long term business provision or the technical provision for linked liabilities Death claims and all other claims are accounted for when notified Claims payable include related internal and external claims handling costs Reinsurance recoveries are accounted for in the same period as the related claim

Unallocated divisible surplus

Surpluses arising on the long term business funds are determined by an actuarial valuation of the assets and liabilities relating to each fund A proportion of the surplus on the participating fund, referred to as the with-profit fund in the financial statements, is appropriated by the directors to with-profit policyholders by way of bonuses, with the unallocated balance carried forward in the unallocated divisible surplus

Investment contract liabilities

Investment contracts consist primarily of unit-linked contracts Unit-linked liabilities are measured by reference to the value of the underlying net asset value of the selected unitised investment funds at the balance sheet date The holdings in these funds are designated at fair value through the income statement In order to prevent a measurement inconsistency investment contract liabilities have also been designated at fair value through the income statement

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

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

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

Other intangible assets

Other intangible assets consist of computer software and are carried at historical cost less accumulated amortisation These are amortised over their useful lives of 3 to 5 years, using the straight-line method The amortisation charge for the period is included in the income statement under other operating and administrative expenses

1 Accounting policies (continued)

Property, plant and equipment

Owner occupied properties are stated at open market value and movements are taken to a separate reserve within equity When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings Valuations are carried out at least every three years by external qualified surveyors All other items classed as property, plant and equipment within the balance sheet 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 the income statement

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred

Investment property

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

Financial instruments

IAS 39 requires the classification of certain financial assets and liabilities into separate categories for which the accounting requirements differ

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

- Financial instruments designated as at fair value through the income statement and those held for trading are subsequently carried at fair value Changes in fair value are included in the income statement 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 balance sheet, 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

1 Accounting policies (continued)

Financial investments

The group classifies its financial investments as either financial assets at fair value through the income statement (designated as such or held for trading) or loans and receivables

Financial assets at fair value through the income statement

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 acquired principally for the purpose of selling in the near term

The fair values of investments are based on quoted bid prices Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment

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 uncollectible, it is written off as impaired Subsequent recoveries are credited to the income statement

Derivative financial instruments

Derivative financial instruments include financial instruments that derive their value from underlying equity instruments All derivatives are initially recognised in the balance sheet at their fair value, which usually represents their cost They are subsequently re-measured at their fair value with changes in the fair value recognised in the income statement

For a variety of reasons, group derivative transactions, while providing effective economic hedges under the group's risk management positions, do not qualify for hedge accounting under the specific IFRS rules and are therefore treated as derivatives held for trading Their fair value gains and losses are recognised immediately in net investment return

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

For investment contracts, only directly related acquisition costs, which vary with and are related to securing new contracts and renewing existing contracts, are deferred to the extent that they are recoverable out of future revenue All other costs are recognised as expenses when incurred Deferrable acquisition costs for investment contracts are amortised over the period in which the service is provided

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

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 the income statement on a straight-line basis over the period of the lease Rental income received as lessor under operating leases is credited to the income statement 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 in borrowings net of finance charges allocated to future periods The interest element of the lease payments is charged to the income statement over the period of the lease

1 Accounting policies (continued)

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 the future obligation is probable but 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 the income statement 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 scheme surplus or deficit appears as an asset or obligation in the consolidated and parent balance sheets

In accordance with IAS 19, *Employee Benefits*, actuarial gains or losses are accounted for using the "corridor method" Actuarial gains and losses are recognised in the income statement to the extent that they exceed 10 per cent of the greater of the fair value of the scheme assets or the present value of the gross defined benefit obligations in the scheme Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme

Contributions in respect of defined contribution schemes are recognised as an expense in the income statement as incurred

Other post-employment obligations

Some group companies provide post-employment healthcare benefits to their retirees The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period 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 the income statement Independent qualified actuaries value these obligations annually

Other benefits

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

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

1 Accounting policies (continued)

Taxation

Income tax comprises current and deferred tax Income tax is recognised in the income statement except to the extent that it relates to items taken directly to equity, in which case it is recognised in equity

Current tax is the expected tax payable on the taxable profit 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 law which have been enacted or substantively enacted at the balance sheet 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

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs, and subsequently stated at amortised cost

Appropriations

Dividends

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

Charitable grant to ultimate parent undertaking

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

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 are various sources of uncertainty as to how much the group will ultimately pay with respect to such contracts 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

The uncertainties surrounding the estimates of claims payments for the various classes of business are discussed further in note 3

(b) Estimate of future benefit payments and premiums 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 For contracts that insure the risk of longevity, appropriate allowance is made for expected mortality improvements The estimated number of deaths determines the provisions for forecast benefit payments net of forecast premium receipts

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

For with-profit contracts and non-profit contracts that are not unit-linked, estimates of future deaths, investment returns and administration expenses form the assumptions used for calculating the liabilities of the contract A margin for risk and uncertainty is added to these assumptions

(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 in the income statement for these benefits include the expected long term rate of return on the relevant plan assets, the discount rate and, in the case of the post-employment medical benefits, expected medical costs inflation Any changes in these assumptions will impact the income statement charge and may affect planned funding of the pension plans The expected return on plan assets assumption is determined by considering long term historical returns, asset allocation and future estimates of long term investment returns 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 post-employment benefit obligations

In determining the appropriate discount rate, the group considered interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability The expected rate of medical costs has been determined by comparing the historical relationship of the actual medical cost increases with the rate of inflation Other key assumptions for the pension and post-employment benefit costs and credits are based in part on current market conditions Additional information is disclosed in note 19

3 Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim By the very nature of an insurance contract, this risk is unpredictable and difficult to quantify with certainty

The principal risk that the group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities, which may occur if the frequency or severity of claims and benefits are greater than estimated Insurance events are unpredictable and the actual level of claims and benefits may vary from year to year from the estimate established using statistical techniques

Factors that typically aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical spread and type of customer covered

Experience shows that the larger and more diversified the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be The group's insurance underwriting strategy aims to diversify the type of insurance risks accepted in order to reduce the variability of the expected outcome

(a) General business risks

General insurance business classes written include property and liability Property cover mainly compensates the policyholder for damage suffered to their properties or for the value of property lost Property may also include cover for pecuniary loss through the inability to use damaged insured commercial properties Liability insurance contracts protect policyholders from the liability to compensate injured employees (employers' liability) and third parties (public liability) Motor policies provide both property and liability cover for the insured Injury, death or incapacity as a result of an unforeseen event is covered by the accident class of business

In all operations pricing controls are in place, underpinned by sound statistical analysis and market expertise and appropriate external consultant advice The group manages risks to limit severity through its underwriting strategy, a comprehensive reinsurance programme and proactive claims handling Net retention limits are in place and the group arranges catastrophe reinsurance cover to protect against aggregations of losses

Frequency and severity of claims

Property classes

For property insurance contracts, including the property element of motor contracts, the number of claims made can be affected by weather events, changes in climate and crime rates Individual claims can vary in amount since the property insured is diverse in both size and nature The cost of repairing property varies according to the extent of damage, cost of materials and labour charges

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

The maximum claim payable is limited to the sum insured The group has the right to re-price the risk on renewal It also has the ability to impose deductibles, reject fraudulent claims and pursue third parties for payment of some or all costs These contracts are underwritten on a reinstatement basis or repair and renovation basis as appropriate Costs of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims Individual large claims are more likely to arise from fire, storm or flood damage The greatest likelihood of an aggregation of claims arises from weather or recession related events

Liability classes

For liability insurance contracts, including the liability element of motor contracts, the frequency and severity of claims can be affected by several factors The most significant are the increasing level of awards for damages suffered and the increase in the number of cases that were latent for a long period of time Inflation, from these and other sources, is a significant factor due to the long period typically required to settle these claims

3 Insurance risk (continued)

The group has the right to re-price the risk on renewal It also has the ability to impose deductibles, reject fraudulent claims and pursue third parties for payment of some or all costs The severity of bodily injury claims is highly influenced by the value of loss of earnings and the future cost of care

Concentrations of risk

The underwriting strategy is designed to ensure that the underwritten risks are well diversified in terms of type and amount of risk and geographical spread The group protects its gross underwriting exposure through the use of a comprehensive programme of reinsurance 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, with reference to written premiums

2007		Type of risk				
		Property	**Liability**	**Motor**	**Accident**	**Total**
Group		**£000**	**£000**	**£000**	**£000**	**£000**
Territory						
United Kingdom	Gross	197,148	65,587	20,644	6,880	290,259
	Net	107,006	58,322	19,051	6,495	190,874
Australia and New Zealand	Gross	35,655	11,615	7,550	467	55,287
	Net	13,039	9,846	7,268	368	30,521
Canada	Gross	11,229	3,748	-	-	14,977
	Net	7,367	3,414	-	-	10,781
Other overseas	Gross	3,427	1,743	-	18	5,188
	Net	1,505	1,538	-	18	3,061
Total	Gross	247,459	82,693	28,194	7,365	365,711
	Net	128,917	73,120	26,319	6,881	235,237
Parent						
Territory						
United Kingdom	Gross	189,646	59,306	18,585	6,370	273,907
	Net	101,834	53,931	17,607	6,133	179,505
Canada	Gross	11,229	3,748	-	-	14,977
	Net	7,367	3,414	-	-	10,781
Other overseas	Gross	3,427	1,743	-	18	5,188
	Net	1,505	1,537	-	18	3,060
Total	Gross	204,302	64,797	18,585	6,388	294,072
	Net	110,706	58,882	17,607	6,151	193,346

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

3 Insurance risk (continued)

2006		Type of risk				
		Property	Liability	Motor	Accident	Total
Group		£000	£000	£000	£000	£000
Territory						
United Kingdom	Gross	195,093	65,352	21,397	6,474	288,316
	Net	107,996	58,197	19,788	6,116	192,097
Australia and New Zealand	Gross	31,604	12,115	6,817	405	50,941
	Net	15,325	10,318	6,570	354	32,567
Canada	Gross	10,211	3,695	-	-	13,906
	Net	7,346	3,271	-	-	10,617
Other overseas	Gross	3,441	1,556	98	25	5,120
	Net	1,522	1,387	89	24	3,022
Total	Gross	240,349	82,718	28,312	6,904	358,283
	Net	132,189	73,173	26,447	6,494	238,303
Parent						
Territory						
United Kingdom	Gross	188,080	59,037	19,330	5,829	272,276
	Net	103,114	53,678	18,348	5,644	180,784
Canada	Gross	10,211	3,695	-	-	13,906
	Net	7,346	3,271	-	-	10,617
Other overseas	Gross	3,441	1,556	98	25	5,120
	Net	1,522	1,387	89	24	3,022
Total	Gross	201,732	64,288	19,428	5,854	291,302
	Net	111,982	58,336	18,437	5,668	194,423

Sources of uncertainty in the estimation of future claim payments

Property classes

The property classes, including property damage under motor contracts, give rise to a variety of different types of claims including fire, business interruption, weather damage, subsidence, accidental damage to insured vehicles and theft There can be variability in both the number of claims in each period and the size of those 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

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

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

3 Insurance risk (continued)

Liability classes

The settlement value of claims arising under public and employers' liability and the liability element of motor contracts is particularly difficult to predict There is uncertainty as to whether any payments will be made and, if they are, the amount and timing of the payments Key factors driving the high levels of uncertainty include the late notification of possible claim events and the legal process

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

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

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

Note 29 presents the development of the estimate of ultimate claim cost for public and employers' liability claims occurring in a given year This gives an indication of the accuracy of the estimation technique for incurred claims

Sources of uncertainty

The ultimate settlement cost of incurred general insurance claims is inherently uncertain 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

Prudence in the provisions for outstanding claims

The group has taken into account the uncertain nature of claims reporting and settlement when provisioning for outstanding claims

Special 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 taken a prudent approach to reflect this uncertainty and believes that it holds adequate reserves for latent claims that may result from exposure periods up to the reporting date

3 Insurance risk (continued)

(b) Long term business fund

Frequency and severity of claims

The group provides a range of life insurance products, which are summarised in the table below

	With-profit fund £000	Non-profit fund £000	Total £000
Long term business provision as at 31 December 2007			
Life assurance	**77,539**	**43,030**	**120,569**
Pensions assurance	**37,216**	**-**	**37,216**
Pensions annuities in payment	**-**	**65,611**	**65,611**
Life annuities in payment	**-**	**14,147**	**14,147**
Permanent health insurance	**-**	**420**	**420**
Total	**114,755**	**123,208**	**237,963**
Investment products	**-**	**54,919**	**54,919**
Total technical provisions excluding outstanding claims, net of reinsurance	**114,755**	**178,127**	**292,882**
Long term business provision as at 31 December 2006			
Life assurance	81,544	38,290	119,834
Pensions assurance	39,611	-	39,611
Pensions annuities in payment	-	59,693	59,693
Life annuities in payment	-	17,915	17,915
Permanent health insurance	-	455	455
Total	121,155	116,353	237,508
Investment products	-	56,214	56,214
Total technical provisions excluding outstanding claims, net of reinsurance	121,155	172,567	293,722

Long term insurance contracts

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics or wide-spread changes in lifestyle resulting in more or fewer claims than expected For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that would increase longevity

For non-profit contracts with fixed and guaranteed benefits and fixed future premiums, there are no mitigating terms and conditions that reduce the insurance risk accepted

The group manages these risks through its underwriting strategy and reinsurance arrangements Industry standard tables are used to price products No allowance is made for the group's own claims experience as it is not statistically significant The group's exposure is limited by reinsurance arrangements that restrict exposure on a single risk Both yearly renewable term and original terms reinsurance arrangements are used

Both pension and life annuities in payment provide a defined income stream to the policyholder which is commonly contingent on survival The primary risks on these contracts are the level of future investment returns on the assets backing the liability and the longevity of the policyholders The investment risk has been largely mitigated by holding fixed interest assets of a similar term to the expected longevity profile The longevity risk is retained by the group and directly impacts shareholders' equity

3 Insurance risk (continued)
Both with-profit life and pensions assurance products provide a combination of guaranteed and discretionary benefits for policyholders The principal risks associated with these contracts are interest rate and equity price risk In the first instance these risks are borne by the unallocated divisible surplus, which is available for allocation to policyholders as discretionary benefits

There are no material concentrations of risk in respect of life assurance or annuity business

The non-profit fund bears any difference between future administration expenses and the specified fees charged to the with-profit fund The reserves in the non-profit fund for with-profit life and pension contracts reflect a shortfall between the forecast fees receivable and forecast expenses

Insurance risk for contracts disclosed in this note is also affected by the policyholders' right to pay reduced or no future premiums, or to terminate the contract completely As a result, the amount of insurance risk is also subject to policyholder behaviour The group has considered the impact of policyholders' behaviour in the calculation of these liabilities

Group life yearly renewable contracts
These contracts are mainly issued to employers to insure their commitments to their employees in terms of their pension fund and other employee benefit plans The risk is affected by the nature of the industry in which the employer operates, in addition to the factors noted above

The group does have a higher than average concentration of risk in the clergy, but otherwise there is no bias to any particular industry It is believed that the mortality and morbidity of the clergy does not depart significantly from experience for the United Kingdom population as a whole

Reinsurance arrangements are in place to mitigate the group's exposure to these risks The net exposure for any one risk is limited

Sources of uncertainty in the estimation of future benefit payments and premium receipts
Long term insurance contracts
Uncertainty in the estimation of future benefit payments and premium receipts for long term insurance contracts arises from the unpredictability of long term changes in overall levels of mortality and the variability in policyholder behaviour

The group uses appropriate base tables of standard industry mortality according to the type of contract being written For contracts that insure survival, an adjustment is made for future mortality improvements based on trends identified in the mortality investigations performed by independent actuarial bodies

Group life yearly renewable contracts
There is no need to estimate mortality rates or morbidity rates for future years because these contracts have short duration However, for incurred disability income claims, it is necessary to estimate the length of the term over which payments will continue to be made It has been assumed that payments will continue for the remaining term of the policy with no allowance for either mortality or recovery

Options and guarantees
All material financial options and guarantees are in the with-profit fund and the cost of meeting them is currently covered by the unallocated divisible surplus These options and guarantees have the potential, depending on the behaviours of financial variables such as interest rates and equity returns, to increase the value of benefits paid to policyholders

Further details of the material options and guarantees are given below, including the variables that determine the amount payable and the potential effect of adverse changes in market conditions In line with the measurement of the with-profit policyholder liabilities, a deterministic methodology has been used to measure the options and guarantees and so they are not measured at fair value or using a market-consistent asset model

With-profit guaranteed annuity options
The deposit administration group pension contracts contained an option for the pensions for individual members to be purchased using a guaranteed annuity rate This option was withdrawn with effect from 1 January 2008 Therefore there was no liability at the year-end (2006 £0 7 million)

3 Insurance risk (continued)

With-profit maturity and surrender value guarantees

Substantially all of the conventional with-profit policies have minimum guaranteed benefits on maturity consisting of the sums assured plus previously declared regular bonuses In addition, a small proportion of endowment policyholders have minimum guaranteed benefits on surrender after a certain time, consisting of a fixed proportion of the sums assured plus previously declared regular bonuses The main variable that determines the amount payable under the guarantees is the level of regular bonuses added to the policy

The difference between the guaranteed benefits and the value of the assets deemed to be allocated to the policies (their asset share) at maturity or at the point of surrender, represents the net cost of the guarantees For maturities in 2008, this net cost is expected to total £1 1 million (2006 £0 2 million expected for 2007) and for surrenders it is expected to total £0 2 million (2006 £0 1 million expected for 2007) The discounted value of these amounts is included within the with-profit policyholder liabilities for the relevant policies

The cost of the guarantees is most affected by a fall in equity returns and if returns were 10% lower than anticipated, the above costs would increase to £1 8 million (2006 £0 5 million) and £0 3 million (2006 £0 2 million) respectively

No market value reduction (MVR) guarantees

For the with-profit bond and the deposit administration group pension contracts, there are circumstances when it is guaranteed that no MVR will apply in determining benefits, ie

- on partial withdrawals of the bond not exceeding 7 5% per annum of the original amount invested, and
- on withdrawals from the deposit administration contract for the purchase of immediate annuities for individual members

The cost of the guarantee is determined by the relationship between the total benefits on the contract and the total asset share when applied to the amount of the withdrawal If withdrawals were made on all contracts up to the maximum level for the no MVR guarantee, then the total cost in 2008 is expected to total £0 1 million (2006 £0 1 million expected for 2007) This is allowed for in determining the liabilities for the contracts

The cost of the guarantee is most affected by a fall in equity returns, and if returns were 10% lower than anticipated, the cost would increase to £0 2 million (2006 £0 2 million)

With-profit guaranteed regular bonus rates

Until 31 December 2009, the deposit administration group pension contracts have a guaranteed regular bonus rate of 3% per annum It has not been deemed necessary to hold additional reserves in excess of the basic policyholder liabilities for this guarantee

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

4 Financial risk and capital management

The group is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment 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 financial risks that the group is exposed to The group's management and measurement of these risks is informed by either stochastic modelling or stress testing techniques

Categories of financial instruments

	Financial assets			Financial liabilities			
Group	Designated at fair value	Held for trading	Loans and receivables*	Designated at fair value	At amortised cost	Other assets and liabilities	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
At 31 December 2007							
Financial Investments	**935,881**	**1,685**	**35,226**	**-**	**-**	**-**	**972,792**
Other assets	**-**	**-**	**102,729**	**-**	**-**	**2,520**	**105,249**
Cash and cash equivalents	**-**	**-**	**181,003**	**-**	**-**	**-**	**181,003**
Investment contract liabilities	**-**	**-**	**-**	**(54,919)**	**-**	**-**	**(54,919)**
Other liabilities	**-**	**-**	**-**	**-**	**(28,799)**	**(4,508)**	**(33,307)**
Net other	**-**	**-**	**-**	**-**	**-**	**(808,767)**	**(808,767)**
Total	**935,881**	**1,685**	**318,958**	**(54,919)**	**(28,799)**	**(810,755)**	**362,051**
At 31 December 2006							
Financial Investments	843,988	803	32,305	-	-	250	877,346
Other assets	-	-	83,082	-	-	2,457	85,539
Cash and cash equivalents	-	-	234,425	-	-	-	234,425
Investment contract liabilities	-	-	-	(56,214)	-	-	(56,214)
Other liabilities	-	-	-	-	(37,585)	(4,011)	(41,596)
Net other	-	-	-	-	-	(754,491)	(754,491)
Total	843,988	803	349,812	(56,214)	(37,585)	(755,795)	345,009

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

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

4 Financial risk and capital management (continued)
Categories of financial instruments (continued)

Parent	Financial assets			Financial liabilities			
	Designated at fair value	Held for trading	Loans and receivables*	Designated at fair value	At amortised cost	Other assets and liabilities	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
At 31 December 2007							
Financial Investments	**463,818**	-	**210**	-	-	**23,578**	**487,606**
Other assets	-	-	**95,308**	-	-	**1,857**	**97,165**
Cash and cash equivalents	-	-	**107,780**	-	-	-	**107,780**
Other liabilities	-	-	-	-	**(14,373)**	**(3,216)**	**(17,589)**
Net other	-	-	-	-	-	**(378,493)**	**(378,493)**
Total	**463,818**	-	**203,298**	-	**(14,373)**	**(356,274)**	**296,469**
At 31 December 2006							
Financial Investments	401,072	-	269	-	-	22,423	423,764
Other assets	-	-	77,235	-	-	1,881	79,116
Cash and cash equivalents	-	-	153,548	-	-	-	153,548
Other liabilities	-	-	-	-	(29,292)	(2,873)	(32,165)
Net other	-	-	-	-	-	(343,339)	(343,339)
Total	401,072	-	231,052	-	(29,292)	(321,908)	280,924

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

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

4 Financial risk and capital management (continued)

(a) Interest rate risk

The table below summarises the effective interest rate and maturity dates for those assets and liabilities that are exposed to interest rate risk

	Effective interest rate	Maturing within 1 year or less	2-5 years	More than 5 years	Total
Group	%	£000	£000	£000	£000
At 31 December 2007					
Assets					
Debt securities	4 1	68,361	244,440	209,661	522,462
Mortgage and other loans	7 4	257	1,185	16,885	18,327
Loans to related parties	7 2	-	-	6,750	6,750
Non-profit reinsurers' share of long term business provisions	n/a	1,783	352	75	2,210
Other assets including insurance receivables	6 2	28,807	-	-	28,807
Cash and cash equivalents	4 5	181,003	-	-	181,003
		280,211	245,977	233,371	759,559
Liabilities					
Finance lease obligations	9.6	328	1,279	-	1,607
Loans from related parties	7 2	-	-	6,750	6,750
Non-profit long term business provisions	n/a	3,267	2,826	119,325	125,418
Investment contract liabilities	n/a	2,210	6,701	46,008	54,919
		5,805	10,806	172,083	188,694
At 31 December 2006					
Assets					
Debt securities	4 3	41,419	131,278	260,683	433,380
Mortgage and other loans	5 9	43	292	12,379	12,714
Non-profit reinsurers' share of long term business provisions	n/a	1,239	420	94	1,753
Other assets including insurance receivables	6 2	23,763	-	-	23,763
Cash and cash equivalents	4 5	234,425	-	-	234,425
		300,889	131,990	273,156	706,035
Liabilities					
Finance lease obligations	9 7	232	1,463	-	1,695
Non-profit long term business provisions	n/a	2,079	2,558	113,469	118,106
Investment contract liabilities	n/a	2,110	6,493	47,611	56,214
		4,421	10,514	161,080	176,015

4 Financial risk and capital management (continued)
(a) Interest rate risk (continued)

Parent	Effective interest rate %	Maturing within 1 year or less £000	2-5 years £000	More than 5 years £000	Total £000
At 31 December 2007					
Assets					
Debt securities	4 9	44,092	133,479	78,401	255,972
Mortgage and other loans	7 4	29	-	160	189
Loans to related parties	6 9	-	2,250	17,773	20,023
Other assets including insurance receivables	6 4	26,117	-	-	26,117
Cash and cash equivalents	4 2	107,780	-	-	107,780
		178,018	135,729	96,334	410,081
Liabilities					
Finance lease obligations	9 6	284	1,258	-	1,542
		284	1,258	-	1,542
At 31 December 2006					
Assets					
Debt securities	4 9	29,319	86,236	90,633	206,188
Mortgage and other loans	5 9	23	30	187	240
Loans to related parties	5 5	-	8,426	3,708	12,134
Other assets including insurance receivables	6 4	21,256	-	-	21,256
Cash and cash equivalents	4 4	153,548	-	-	153,548
		204,146	94,692	94,528	393,366
Liabilities					
Finance lease obligations	9 7	177	1,358	-	1,535
		177	1,358	-	1,535

Those financial assets and liabilities with fixed interest rates are subject to fair value interest rate risk Those with variable interest rates are subject to cash flow interest rate risk

General business insurance liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest bearing Furthermore, these liabilities do not have maturity dates hence are not included in the above tables

Financial investments represent a significant proportion of the group's assets Investment strategy is set in order to control the impact of interest rate risk on anticipated group cash flows The fair value of the group's investment portfolio of debt and fixed income securities reduces as market interest rates rise, and vice versa Interest rate risk concentration is reduced by the varied maturity profiles of the investments

The group's exposure to interest rate risk in respect of long term insurance and investment contracts is dependent on the types of liabilities which interest bearing assets are being used to support

4 Financial risk and capital management (continued)

Non-profit contracts excluding unit-linked

The benefits payable to policyholders under these contracts 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 eliminated by purchasing fixed interest investments with durations that precisely match the profile of the liabilities For practical purposes it is not possible to exactly match the durations due to the uncertain profile of liabilities (eg mortality risk) and the availability of suitable assets Some interest rate risk will persist The group monitors its exposure by comparing projected cashflows for these assets and liabilities and making appropriate adjustments to its investment portfolio

With-profit contracts

All contracts are held in a distinct fund The surplus of assets over liabilities in this fund is available solely to provide future benefits for insurance policyholders The group is not entitled to a share of this surplus There is therefore no equity price, currency, credit, or interest rate risk to the group for these contracts under current circumstances It is possible under some circumstances that guaranteed benefits will exceed the fund's assets and the group could be called upon to provide financial support to the fund The nature of these guarantees is described in more detail in note 3(b)

Unit-linked contracts

For unit-linked contracts the group matches all the assets on which the unit prices are based with assets in the portfolio There is therefore no price, currency, credit, or interest rate risk to the group for these contracts

(b) Credit risk

The group has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due Key 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,
- amounts due from insurance intermediaries and policyholders, and
- corporate bond counterparty default

The carrying amount of financial 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

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

The fixed interest portfolio consists of a range of 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

4 Financial risk and capital management (continued)

(c) Liquidity risk

The group is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts Liquidity risk is the risk that funds may not be available to pay obligations when due The group has robust processes in place to manage liquidity risk and has access to funding in case of exceptional need Sources of funding include available cash balances, other readily marketable assets and access to short term bank funding This is not considered to be a significant risk to the group

(d) 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 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 exposure to foreign currency risk within the investment portfolios arises from purchased investments that are denominated in currencies other than sterling

The group foreign operations create two sources of foreign currency risk

- the operating results of the group foreign branches and subsidiaries in the group financial statements are translated at the average exchange rates prevailing during the period, and
- the equity investment in foreign branches and subsidiaries is translated into sterling using the exchange rate at the financial statement year-end date

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

	2007		2006	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
Euro	**51,726**	**24,233**	48,584	22,125
Aus $	**38,963**	**6,958**	33,404	5,678
Can $	**24,288**	**24,270**	20,422	20,408
US $	**21,681**	**14,848**	17,314	11,538
Hong Kong $	**18,132**	**9,488**	17,966	9,317

(e) Equity price risk

The group is exposed to equity price risk because of financial investments held by the group and stated at fair value through the income statement The group mitigates this risk by holding a diversified portfolio across geographical regions and market sectors, and through the use of options 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 to which the group and parent are exposed is as follows

	2007		2006	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
UK	**129,634**	**174,215**	131,450	162,061
Europe	**45,021**	**22,038**	41,867	19,653
Hong Kong	**7,176**	**3,409**	17,413	9,229
USA	**6,722**	**1,387**	5,447	1,066
Other	**22,708**	**6,796**	12,817	2,874
Total	**211,261**	**207,845**	208,994	194,883

At the parent level, Ecclesiastical OEIC funds are included in the UK figures At the group level, a geographical analysis of the underlying equity investments of the OEIC funds is included

4 Financial risk and capital management (continued)

(f) 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

Variable	Change in variable	Potential increase/ (decrease) in profit 2007 £000	2006 £000	Potential increase/ (decrease) in other equity reserves 2007 £000	2006 £000
Interest rate risk	-100 basis points	**8,144**	6,964	**106**	72
	+100 basis points	**(7,699)**	(3,292)	**(105)**	(66)
Currency risk	-5%	**4,745**	4,155	**2,809**	2,388
	+5%	**(4,508)**	(3,947)	**(2,669)**	(2,268)
Equity price risk	+/-5%	**10,563**	10,450	**-**	-

Parent

Variable	Change in variable	Potential increase/ (decrease) in profit 2007 £000	2006 £000	Potential increase/ (decrease) in other equity reserves 2007 £000	2006 £000
Interest rate risk	-100 basis points	**6,207**	5,862	**65**	79
	+100 basis points	**(5,775)**	(5,394)	**(63)**	(73)
Currency risk	-5%	**2,371**	1,991	**1,345**	1,107
	+5%	**(2,252)**	(1,891)	**(1,278)**	(1,051)
Equity price risk	+/-5%	**10,392**	9,744	**-**	-

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
- the above analysis is based only on exposures borne by the shareholders, and thus excludes those of with-profit and unit-linked business
- change in profit is stated net of tax at the standard rate of 30%

The above assumptions about changes in variables presents a cautious view of market risk sensitivity as, in practice, there are likely to be offsetting interest rate, currency and equity price fluctuations across territories that will mitigate the effect of such movements on profit and other equity reserves

4 Financial risk and capital management (continued)

(g) Capital management

The group's objectives when managing capital are

- to comply with the regulators' capital requirements of the markets in which the group operates
- to safeguard the group's ability to continue to meet stakeholders' expectations, in accordance with its Corporate Mission, Vision and Values

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

In the UK, the group and its UK regulated entities are required to comply with rules issued by the Financial Services Authority (FSA), and submit FSA 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 FSA reviews and may amend by issuing Individual Capital Guidance (ICG) The group sets internal capital standards above the FSA'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 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 available capital resource is disclosed in note 29(b) part (iv)

5 Segment information

(a) Primary reporting format - business segments

At 31 December 2007, the group is organised on a worldwide basis into the following business segments

- **General business**
  General business provides insurance cover for risks associated mainly with property, accident, motor and liability, such as public and employers' liability
- **Long term business**
  Long term business comprises life assurance, annuity and pension business, mortgage and equity release business
- **Other**
  This includes activities that are not related to the core business segments plus segments that are not reportable due to their immateriality, together with inter-segment eliminations and other reconciling items

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

Segment assets and liabilities comprise the group's operating assets and liabilities Assets and liabilities relating to insurance and investment contracts are shown separately from other segment assets and liabilities

Capital expenditure comprises additions to property, plant and equipment and intangible assets

The analysis of the results, assets, liabilities and capital expenditure by segment is shown on the next page

5 Segment information (continued)

2007	General business £000	Long term business £000	Other £000	Group £000
Revenue				
Gross written premiums	365,711	21,204	-	386,915
Outward reinsurance premiums	(130,474)	(1,620)	-	(132,094)
Net change in provision for unearned premiums	(1,183)	-	-	(1,183)
Net earned premiums	234,054	19,584	-	253,638
Fee and commission income	36,460	1,239	291	37,990
Net investment return	47,946	14,893	6,557	69,396
Total revenue	318,460	35,716	6,848	361,024
Expenses				
Claims and change in insurance liabilities	(234,310)	(33,523)	-	(267,833)
Reinsurance recoveries	72,139	1,218	-	73,357
Fees, commissions and other acquisition costs	(64,624)	(3,498)	(2,441)	(70,563)
Other operating and administrative expenses	(51,969)	(2,631)	(2,386)	(56,986)
Change in provisions for investment contract liabilities	-	265	-	265
Change in net asset value attributable to unitholders	-	-	(1,097)	(1,097)
Total operating expenses	(278,764)	(38,169)	(5,924)	(322,857)
Operating profit	39,696	(2,453)	924	38,167
Finance costs	(153)	(162)	(517)	(832)
Transfers to the unallocated divisible surplus	-	(1,731)	-	(1,731)
Profit before tax	39,543	(4,346)	407	35,604
Tax expense	(9,742)	(451)	845	(9,348)
Profit attributable to equity holders of the parent	29,801	(4,797)	1,252	26,256
Included in other operating and administrative expenses are				
Depreciation	1,937	38	-	1,975
Amortisation	1,125	125	-	1,250
Segment assets				
Reinsurers' share of contract provisions	186,909	2,350	-	189,259
Deferred acquisition costs	30,228	1,523	-	31,751
Other assets	872,474	352,304	110,196	1,334,974
Total assets	1,089,611	356,177	110,196	1,555,984
Segment liabilities				
Insurance contract provisions	666,063	243,406	-	909,469
Investment contract liabilities	-	54,919	-	54,919
Unallocated divisible surplus	-	39,836	-	39,836
Other liabilities	103,097	18,017	68,595	189,709
Total liabilities	769,160	356,178	68,595	1,193,933
Capital expenditure	2,784	-	-	2,784

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

5 Segment information (continued)

2006	General business £000	Long term business £000	Other £000	Group £000
Revenue				
Gross written premiums	358,283	45,033	-	403,316
Outward reinsurance premiums	(119,980)	(1,113)	-	(121,093)
Net change in provision for unearned premiums	(4,170)	-	-	(4,170)
Net earned premiums	234,133	43,920	-	278,053
Fee and commission income	34,684	1,019	59	35,762
Net investment return	46,126	34,063	13,854	94,043
Total revenue	314,943	79,002	13,913	407,858
Expenses				
Claims and change in insurance liabilities	(179,521)	(52,444)	-	(231,965)
Reinsurance recoveries	49,577	541	-	50,118
Fees, commissions and other acquisition costs	(63,814)	(3,301)	(2,388)	(69,503)
Other operating and administrative expenses	(49,366)	(2,733)	(1,565)	(53,664)
Change in provisions for investment contract liabilities	-	(8,865)	-	(8,865)
Change in net asset value attributable to unitholders	-	-	(7,828)	(7,828)
Total operating expenses	(243,124)	(66,802)	(11,781)	(321,707)
Operating profit	71,819	12,200	2,132	86,151
Finance costs	(298)	(343)	-	(641)
Transfers to the unallocated divisible surplus	-	(8,399)	-	(8,399)
Profit before tax	71,521	3,458	2,132	77,111
Tax expense	(21,107)	(1,709)	274	(22,542)
Profit attributable to equity holders of the parent	50,414	1,749	2,406	54,569
Included in other operating and administrative expenses are				
Depreciation	1,720	71	-	1,791
Amortisation	1,126	178	-	1,304
Segment assets				
Reinsurers' share of contract provisions	158,773	2,000	-	160,773
Deferred acquisition costs	27,912	1,565	-	29,477
Other assets	818,316	361,296	90,541	1,270,153
Total assets	1,005,001	364,861	90,541	1,460,403
Segment liabilities				
Insurance contract provisions	587,088	243,298	-	830,386
Investment contract liabilities	-	56,214	-	56,214
Unallocated divisible surplus	-	38,105	-	38,105
Other liabilities	116,603	27,244	46,842	190,689
Total liabilities	703,691	364,861	46,842	1,115,394
Capital expenditure	5,221	-	-	5,221

5 Segment information (continued)

(b) Secondary reporting format – geographical segments

The group operates in the following geographical areas	2007	2006
	£000	£000
Gross written premiums		
UK	**311,463**	333,349
Australia and New Zealand	**55,287**	50,941
Canada	**14,977**	13,906
Other overseas	**5,188**	5,120
	386,915	403,316
Total assets		
UK	**1,326,202**	1,268,091
Australia and New Zealand	**144,301**	116,831
Canada	**60,813**	52,989
Other overseas	**24,668**	22,492
	1,555,984	1,460,403
Capital expenditure		
UK	**2,392**	4,357
Australia and New Zealand	**336**	323
Canada	**56**	512
Other overseas	**-**	29
	2,784	5,221

Revenues are allocated based on the country in which the insurance contracts are issued Total assets and capital expenditure 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 2007			
Gross premiums written	**365,711**	**21,204**	**386,915**
Outward reinsurance premiums	**(130,474)**	**(1,620)**	**(132,094)**
Net premiums written	**235,237**	**19,584**	**254,821**
Change in the gross provision for unearned premiums	**(4,857)**	**-**	**(4,857)**
Change in the provision for unearned premiums, reinsurers' share	**3,674**	**-**	**3,674**
Change in the net provision for unearned premiums	**(1,183)**	**-**	**(1,183)**
Earned premiums, net of reinsurance	**234,054**	**19,584**	**253,638**
For the year ended 31 December 2006			
Gross premiums written	358,283	45,033	403,316
Outward reinsurance premiums	(119,980)	(1,113)	(121,093)
Net premiums written	238,303	43,920	282,223
Change in the gross provision for unearned premiums	(6,742)	-	(6,742)
Change in the provision for unearned premiums, reinsurers' share	2,572	-	2,572
Change in the net provision for unearned premiums	(4,170)	-	(4,170)
Earned premiums, net of reinsurance	234,133	43,920	278,053

7 Fee and commission income

	2007 £000	2006 £000
General business reinsurance commissions and profit commission	**36,460**	34,684
Long term business reinsurance commissions and profit commission	**1,239**	1,019
Other fee and commission income	**291**	59
	37,990	35,762

8 Net investment return

	2007 £000	2006 £000
Income from financial assets at fair value through the income statement		
- equity income	**13,455**	14,568
- debt income	**25,577**	23,548
Income from financial assets not at fair value through the income statement		
- interest income on mortgages and other loans	**2,868**	2,324
- cash and cash equivalents income	**12,731**	4,343
- other income received	**1,501**	1,667
Other income		
- rental income	**2,189**	1,592
Investment income	**58,321**	48,042
Fair value gains on investments at fair value through the income statement	**16,097**	42,040
Fair value (losses)/gains on investment property	**(5,022)**	3,961
Net investment return	**69,396**	94,043

8 Net investment return (continued)

Included within cash and cash equivalents income are exchange gains of £2,518,000 (2006 £4,049,000 losses)

Included within fair value gains on investments at fair value through the income statement are £310,000 gains (2006 £278,000 losses) in respect of investments classified as held for trading

9 Claims and change in insurance liabilities and reinsurance recoveries

	General business £000	Long term business £000	Total £000
For the year ended 31 December 2007			
Gross claims paid	**174,321**	**33,415**	**207,736**
Gross change in the provision for claims	**59,989**	**(807)**	**59,182**
Gross change in long term business provisions	**-**	**915**	**915**
Claims and change in insurance liabilities	**234,310**	**33,523**	**267,833**
Reinsurers' share of claims paid	**(51,408)**	**(868)**	**(52,276)**
Reinsurers' share of change in the provision for claims	**(20,731)**	**110**	**(20,621)**
Reinsurers' share of change in long term business provisions	**-**	**(460)**	**(460)**
Reinsurance recoveries	**(72,139)**	**(1,218)**	**(73,357)**
Claims and change in insurance liabilities, net of reinsurance	**162,171**	**32,305**	**194,476**
For the year ended 31 December 2006			
Gross claims paid	139,092	28,323	167,415
Gross change in the provision for claims	40,429	2,453	42,882
Gross change in long term business provisions	-	21,668	21,668
Claims and change in insurance liabilities	179,521	52,444	231,965
Reinsurers' share of claims paid	(39,784)	(332)	(40,116)
Reinsurers' share of change in the provision for claims	(9,793)	(84)	(9,877)
Reinsurers' share of change in long term business provisions	-	(125)	(125)
Reinsurance recoveries	(49,577)	(541)	(50,118)
Claims and change in insurance liabilities, net of reinsurance	129,944	51,903	181,847

10 Fees, commissions and other acquisition costs

	2007 £000	2006 £000
Fees paid	**332**	266
Commission paid	**48,390**	47,796
Change in deferred acquisition costs	**(1,461)**	(930)
Other acquisition costs	**23,302**	22,371
	70,563	69,503

11 Operating profit

	2007 £000	2006 £000
Operating profit has been arrived at after (crediting)/charging		
Net foreign exchange (gains)/losses	**(2,518)**	4,049
Depreciation of property, plant and equipment	**1,975**	1,791
Amortisation of intangible assets	**1,250**	1,304
Decrease/(increase) in fair value of investment property	**5,022**	(3,961)
Employee benefits expense	**47,270**	45,220
Operating lease rentals	**2,605**	2,723
Auditors' remuneration		
Fees payable to the company's auditor for the audit of the company's annual accounts	**203**	197
Fees payable to the company's auditor and its associates for other services		
The audit of the company's subsidiaries, persuant to legislation	**226**	202
	429	399
Other services persuant to legislation	**182**	238
Tax services	**29**	8
Corporate finance services	**235**	42
All other services	**39**	42
Total auditors' remuneration	**914**	729

Other services persuant to legislation represents FSA and other regulatory audit work

12 Employee information

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

	2007		2006	
	General business No	Long term business No	General business No	Long term business No
Group				
United Kingdom	849	52	807	70
Australia and New Zealand	132	-	126	-
Canada	55	-	55	-
Republic of Ireland	16	-	17	-
	1,052	52	1,005	70
Parent				
United Kingdom	761	52	731	70
Canada	55	-	55	-
Republic of Ireland	16	-	17	-
	832	52	803	70

	2007		2006	
	Group £000	Parent £000	Group £000	Parent £000
Wages and salaries	37,015	30,689	35,054	29,734
Social security costs	2,925	2,622	2,868	2,635
Pension costs - defined contribution plans	884	399	533	165
Pension costs - defined benefit plans	3,372	3,120	5,245	4,977
Other post-employment benefits	3,074	3,074	1,520	1,520
	47,270	39,904	45,220	39,031

13 Remuneration of key management personnel

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

	2007 £000	2006 £000
Salaries and other short-term employee benefits	1,123	1,119
Post-employment benefits	44	29
	1,167	1,148

Post-employment benefits includes £30,700 (2006 £nil) in respect of contributions to a defined contribution scheme

Two directors (2006 three) who were employed by Ecclesiastical Insurance Office plc, were members of the group's defined benefit pension scheme during the year One director (2006 nil) was a member of the group's defined contribution scheme during the year

In 2006 three directors received ex-gratia payments totalling £131,500 There were no ex-gratia payments to directors in the current year

		2007 £000	2006 £000
Highest paid director	- emoluments	325	463
	- accrued pension benefit	2	130
	- accrued lump sum entitlement	5	390
Chairman's fees		68	61

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

14 Finance costs	**2007**	2006
	£000	£000
Interest expense		
- finance leases	**159**	151
- other interest paid	**673**	490
	832	641

15 Tax expense		**2007**	2006
		£000	£000
Current tax	- current year	**11,591**	16,290
	- prior years	**418**	(452)
Deferred tax	- temporary differences	**152**	6,700
	- prior years	**-**	4
	- reduction in tax rate	**(2,813)**	-
Tax expense		**9,348**	22,542

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

	2007	2006
	£000	£000
Profit before tax	**35,604**	77,111
Tax calculated at the UK standard rate of tax of 30% (2006 30%)	**10,681**	23,133
Factors affecting charge for the year		
Claims reserves interest adjustment	**-**	206
Expenses not deductible for tax purposes	**299**	374
Non-taxable franked investment income	**(1,327)**	(1,311)
Life insurance and other tax paid at non-standard rates	**1,745**	1,220
Tax losses for which no deferred income tax asset was recognised	**(24)**	-
Impact of reduction in deferred tax rate	**(2,813)**	-
Other items	**369**	(632)
Adjustments to tax charge in respect of prior periods	**418**	(448)
Tax expense	**9,348**	22,542

A deferred tax credit on fair value gains on owner occupied property of £16,000 (2006 £230,000 charge) and tax relief on charitable grants of £3,810,000 (2006 £2,400,000) are taken directly to equity

16 Appropriations	**2007**	2006
	£000	£000
Amounts recognised as distributions to equity holders in the period		
Dividends		
Interim dividend on Ordinary shares of 0 392p (2006 0 356p) per share	**550**	500
Non-Cumulative Irredeemable Preference share dividend	**5,731**	5,553
	6,281	6,053
Charitable grants		
Gross charitable grants to the ultimate parent company, Allchurches Trust Limited	**12,700**	8,000
Tax relief	**(3,810)**	(2,400)
Net appropriation for the year	**8,890**	5,600

17 Goodwill and other intangible assets

	Goodwill	Computer software	Total
Group	£000	£000	£000
Cost			
At 1 January 2007	**2,097**	**18,219**	**20,316**
Additions	**-**	**573**	**573**
Exchange differences	**-**	**199**	**199**
Disposals	**-**	**(262)**	**(262)**
At 31 December 2007	**2,097**	**18,729**	**20,826**
Amortisation			
At 1 January 2007	**-**	**14,920**	**14,920**
Provided in the year	**-**	**1,250**	**1,250**
Exchange differences	**-**	**111**	**111**
Disposals	**-**	**(262)**	**(262)**
At 31 December 2007	**-**	**16,019**	**16,019**
Net book value at 31 December 2007	**2,097**	**2,710**	**4,807**
Cost			
At 1 January 2006	2,097	17,293	19,390
Additions	-	2,062	2,062
Exchange differences	-	(131)	(131)
Disposals	-	(1,005)	(1,005)
At 31 December 2006	2,097	18,219	20,316
Amortisation			
At 1 January 2006	-	14,680	14,680
Provided in the year	-	1,304	1,304
Exchange differences	-	(59)	(59)
Disposals	-	(1,005)	(1,005)
At 31 December 2006	-	14,920	14,920
Net book value at 31 December 2006	2,097	3,299	5,396

Goodwill arose on the acquisition of a subsidiary undertaking The recoverable amount, determined on a fair value less cost to sell calculation using comparable observable market prices indicates no impairment in either year

17 Goodwill and other intangible assets (continued)

	Computer software
Parent	**£000**
Cost	
At 1 January 2007	**15,863**
Additions	**411**
Exchange differences	**96**
Disposals	**(262)**
At 31 December 2007	**16,108**
Amortisation	
At 1 January 2007	**13,283**
Provided in the year	**863**
Exchange differences	**37**
Disposals	**(262)**
At 31 December 2007	**13,921**
Net book value at 31 December 2007	**2,187**
Cost	
At 1 January 2006	14,335
Additions	1,827
Exchange differences	(55)
Disposals	(244)
At 31 December 2006	15,863
Amortisation	
At 1 January 2006	12,689
Provided in the year	857
Exchange differences	(19)
Disposals	(244)
At 31 December 2006	13,283
Net book value at 31 December 2006	2,580

18 Deferred acquisition costs

	2007		2006	
	Group	Parent	Group	Parent
	£000	£000	£000	£000
At 1 January	**29,477**	**22,048**	29,121	21,396
Increase in the period	**29,551**	**22,469**	28,068	21,990
Release in the period	**(28,090)**	**(21,913)**	(27,138)	(21,016)
Exchange differences	**813**	**408**	(574)	(322)
At 31 December	**31,751**	**23,012**	29,477	22,048
Current	**30,136**	**22,768**	27,785	21,764
Non-current	**1,615**	**244**	1,692	284

19 Pension asset and retirement benefit obligations

Defined benefit pension plans

The group's main scheme is a non-contributory defined benefit scheme for UK employees The assets of the scheme are held separately from those of the group by the trustees of the Ecclesiastical Insurance Office plc Staff Retirement Benefit Fund Pension costs for this scheme are determined, on the basis of triennial valuations, by an independent qualified actuary using the projected unit credit method The most recent valuation was at 31 December 2004 The scheme is registered with the Pensions Regulator

Pension liabilities of the Canadian branch are dealt with by payment to a Canadian Trust Fund, and pension liabilities for the Republic of Ireland branch are dealt with by payment to an Irish life office

The Ansvar subsidiaries operate separate schemes from the main group scheme In the UK, Ansvar operates a non-contributory defined benefit scheme, the contributions to which are determined with the advice of independent qualified actuaries on the basis of triennial valuations In Australia, Ansvar Insurance operates, through an AMP Masterplan, a defined contribution plan that complies with the Superannuation Industry (Supervision) Act, 1993

	2007		2006	
	Group	Parent	Group	Parent
The amounts recognised in the balance sheet are determined as follows	£000	£000	£000	£000
Present value of funded obligations	**(164,458)**	**(157,938)**	(151,433)	(145,686)
Fair value of plan assets	**189,880**	**182,783**	172,365	165,823
	25,422	**24,845**	20,932	20,137
Unrecognised actuarial gains	**(4,146)**	**(4,828)**	(2,651)	(2,918)
Net asset in the balance sheet	**21,276**	**20,017**	18,281	17,219
Movements in the net asset recognised in the balance sheet are as follows				
At 1 January	**18,281**	**17,219**	17,316	16,380
Exchange differences	**48**	**48**	(9)	(9)
Total expense charged in the income statement	**(3,372)**	**(3,120)**	(5,245)	(4,977)
Contributions paid	**6,319**	**5,870**	6,219	5,825
At 31 December	**21,276**	**20,017**	18,281	17,219

Ecclesiastical Insurance Office plc

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19 Pension asset and retirement benefit obligations (continued)

	2007		2006	
	Group	**Parent**	Group	Parent
The amounts recognised in the income statement are as follows	**£000**	**£000**	£000	£000
Current service cost	**7,364**	**6,952**	8,110	7,742
Interest cost	**7,590**	**7,302**	6,881	6,616
Expected return on plan assets	**(11,622)**	**(11,174)**	(9,856)	(9,481)
Net actuarial losses recognised during the year	**-**	**-**	27	17
Past service cost	**40**	**40**	83	83
Total included in employee benefits expense	**3,372**	**3,120**	5,245	4,977

The actual return on pension plan assets was £15,093,000 (2006 £21,027,000)

The principal actuarial assumptions at the balance sheet date (expressed as weighted averages) were as follows

	2007	2006
Discount rate	**5 80%**	5 10%
Inflation	**3 50%**	3 10%
Expected return on plan assets	**6 73%**	6 58%
Future salary increases	**5 00%**	4 60%
Future pension increases	**3 50%**	3 10%

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets

The net pension asset is influenced by longevity, and the group uses industry standard mortality tables

Plan assets are comprised as follows	2007		2006	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
Equities	**105,682**	**101,370**	107,703	103,272
Bonds	**49,859**	**47,784**	38,432	36,546
Cash	**21,893**	**21,183**	13,796	13,571
Other	**12,446**	**12,446**	12,434	12,434
	189,880	**182,783**	172,365	165,823

19 Pension asset and retirement benefit obligations (continued)

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

	2007		2006	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
Scheme assets				
As at 1 January	**172,365**	**165,823**	148,166	142,329
Pension benefits paid and payable	**(4,083)**	**(3,867)**	(2,995)	(2,782)
Contributions paid	**6,319**	**5,870**	6,219	5,825
Expected return on scheme assets	**11,622**	**11,174**	9,856	9,481
Actuarial gains	**3,471**	**3,597**	11,171	11,022
Exchange differences	**186**	**186**	(52)	(52)
As at 31 December	**189,880**	**182,783**	172,365	165,823
Defined benefit obligation				
As at 1 January	**151,433**	**145,686**	146,258	140,565
Current service cost	**7,364**	**6,952**	8,110	7,742
Past service cost	**40**	**40**	83	83
Pension benefits paid and payable	**(4,083)**	**(3,867)**	(2,995)	(2,782)
Interest cost	**7,590**	**7,302**	6,881	6,616
Actuarial losses/(gains)	**1,921**	**1,632**	(6,851)	(6,485)
Exchange differences	**193**	**193**	(53)	(53)
As at 31 December	**164,458**	**157,938**	151,433	145,686

History of group experience gains and losses	2007	2006	2005	2004	2003
	£000	£000	£000	£000	£000
Present value of defined benefit obligations	(164,458)	(151,433)	(146,258)	(111,400)	(94,676)
Fair value of scheme assets	189,880	172,365	148,166	120,770	100,961
Surplus	25,422	20,932	1,908	9,370	6,285
Experience adjustments on scheme liabilities	7,379	(1,472)	(1,780)	3,470	n/a
Experience adjustments on scheme assets	3,471	11,171	14,233	5,496	n/a

The contribution expected to be paid by the group during the year ended 31 December 2008 is £6 0 million

19 Pension asset and retirement benefit obligations (continued)

Post-employment medical benefits

The parent operates a post employment medical benefit scheme The method of accounting, assumptions and the frequency of valuation are similar to those used for the defined benefit pension scheme

The amounts recognised in the balance sheet are determined as follows	**2007**	2006
	£000	£000
Present value of unfunded obligations and net obligations in the balance sheet	**(11,452)**	(8,506)
Movements in the net obligations recognised in the balance sheet are as follows		
At 1 January	**(8,506)**	(7,103)
Total expense charged in the income statement	**(3,074)**	(1,520)
Contributions paid	**128**	117
At 31 December	**(11,452)**	(8,506)
The amounts recognised in the income statement are as follows		
Current service cost	**993**	878
Interest cost	**434**	337
Net actuarial losses recognised during the year	**1,647**	305
Total included in employee benefits expense	**3,074**	1,520

The main actuarial assumption is a long term increase in medical costs of 8 0% (2006 8 0%)

The effect of a 1% movement in the assumed medical cost trend is as follows

	Increase	**Decrease**
	£000	**£000**
Effect on the aggregate of the current service cost and interest cost	806	(543)
Effect on the medical benefit obligation	3,544	(2,524)

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

20 Property, plant and equipment

Group	Land and buildings £000	Motor vehicles £000	Furniture, fittings and equipment £000	Computer equipment £000	Total £000
Cost or valuation					
At 1 January 2007	**4,383**	**2,723**	**4,753**	**4,822**	**16,681**
Additions	**-**	**748**	**610**	**853**	**2,211**
Exchange differences	**28**	**4**	**150**	**112**	**294**
Disposals	**-**	**(873)**	**(86)**	**(210)**	**(1,169)**
Revaluation	**(55)**	**-**	**-**	**-**	**(55)**
At 31 December 2007	**4,356**	**2,602**	**5,427**	**5,577**	**17,962**
Depreciation					
At 1 January 2007	**-**	**902**	**2,772**	**2,474**	**6,148**
Provided in the year	**-**	**519**	**545**	**911**	**1,975**
Exchange differences	**-**	**3**	**56**	**74**	**133**
Disposals	**-**	**(527)**	**(85)**	**(204)**	**(816)**
At 31 December 2007	**-**	**897**	**3,288**	**3,255**	**7,440**
Net book value at 31 December 2007	**4,356**	**1,705**	**2,139**	**2,322**	**10,522**
Cost or valuation					
At 1 January 2006	3,511	2,754	4,543	4,847	15,655
Additions	279	890	620	1,370	3,159
Exchange differences	(17)	(11)	(107)	(75)	(210)
Disposals	-	(910)	(303)	(1,320)	(2,533)
Revaluation	610	-	-	-	610
At 31 December 2006	4,383	2,723	4,753	4,822	16,681
Depreciation					
At 1 January 2006	-	970	2,638	3,000	6,608
Provided in the year	-	505	467	819	1,791
Exchange differences	-	(6)	(30)	(43)	(79)
Disposals	-	(567)	(303)	(1,302)	(2,172)
At 31 December 2006	-	902	2,772	2,474	6,148
Net book value at 31 December 2006	4,383	1,821	1,981	2,348	10,533

Certain properties, held as investment properties by subsidiary undertakings but occupied by the group, were revalued at 31 December 2007 All others were revalued at 31 December 2006 Valuations were carried out by Cluttons, an external firm of Chartered Surveyors, and were made on the basis of open market value Revaluation movements net of applicable deferred taxes are taken to the revaluation reserve in shareholders' equity

The value of land and buildings on a historical cost basis is £2,994,000 (2006 £2,985,000)

Depreciation expense has been charged in other operating and administrative expenses

Included within net book value of motor vehicles is £1,514,000 (2006 £1,636,000) in respect of assets held under finance leases

Ecclesiastical Insurance Office plc

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20 Property, plant and equipment (continued)

Parent	Land and buildings £000	Motor vehicles £000	Furniture, fittings and equipment £000	Computer equipment £000	Total £000
Cost or valuation					
At 1 January 2007	**1,870**	**2,117**	**3,138**	**3,192**	**10,317**
Additions	-	**602**	**447**	**623**	**1,672**
Exchange differences	-	**1**	**66**	**13**	**80**
Disposals	-	**(534)**	**(78)**	**(146)**	**(758)**
At 31 December 2007	**1,870**	**2,186**	**3,573**	**3,682**	**11,311**
Depreciation					
At 1 January 2007	-	**620**	**1,879**	**1,299**	**3,798**
Provided in the year	-	**415**	**371**	**702**	**1,488**
Exchange differences	-	**(1)**	**20**	**9**	**28**
Disposals	-	**(307)**	**(78)**	**(146)**	**(531)**
At 31 December 2007	-	**727**	**2,192**	**1,864**	**4,783**
Net book value at 31 December 2007	**1,870**	**1,459**	**1,381**	**1,818**	**6,528**
Cost or valuation					
At 1 January 2006	1,850	1,868	3,081	3,126	9,925
Additions	-	826	402	1,269	2,497
Exchange differences	-	-	(54)	(10)	(64)
Disposals	-	(577)	(291)	(1,193)	(2,061)
Revaluation	20	-	-	-	20
At 31 December 2006	1,870	2,117	3,138	3,192	10,317
Depreciation					
At 1 January 2006	-	622	1,866	1,876	4,364
Provided in the year	-	364	313	623	1,300
Exchange differences	-	-	(9)	(7)	(16)
Disposals	-	(366)	(291)	(1,193)	(1,850)
At 31 December 2006	-	620	1,879	1,299	3,798
Net book value at 31 December 2006	1,870	1,497	1,259	1,893	6,519

The company's land and buildings were revalued at 31 December 2006 by Cluttons, an external firm of Chartered Surveyors Valuations were made on the basis of open market value Revaluation movements net of applicable deferred taxes are taken to the revaluation reserve in shareholders' equity

The value of land and buildings on a historical cost basis is £1,601,000 (2006 £1,601,000)

Depreciation expense has been charged in other operating and administrative expenses

Included within net book value of motor vehicles is £1,454,000 (2006 £1,477,000) in respect of assets held under finance leases

21 Investment property

	2007		2006	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
Net book value at 1 January	**36,207**	**31,251**	29,959	27,290
Additions	**2,373**	**1,186**	4,358	2,115
Disposals	**-**	**-**	(2,071)	(2,071)
Fair value (losses)/gains	**(5,022)**	**(4,005)**	3,961	3,917
Net book value at 31 December	**33,558**	**28,432**	36,207	31,251

The group's investment properties were last revalued at 31 December 2007 by Cluttons, an external firm of Chartered Surveyors Valuations were made on the basis of open market value

Investment properties are held for long term capital appreciation rather than short term sale Rental income arising from the investment properties owned by the group amounted to £2,189,000 (2006 £1,592,000) and is included in net investment return Other operating and administrative expenses include £245,000 (2006 £211,000) relating to investment property Rental income in respect of parent investment properties amounted to £1,844,000 (2006 £1,463,000) and expenses were £226,000 (2006 £200,000)

22 Financial investments

	2007		2006	
Financial investments summarised by measurement category are as follows	**Group £000**	**Parent £000**	Group £000	Parent £000
Financial investments at fair value through the income statement				
Equity securities				
- listed	**395,928**	**188,969**	395,074	178,697
- unlisted	**19,176**	**18,877**	16,337	16,187
Debt securities				
- government bonds	**334,155**	**184,520**	285,540	146,800
- listed	**187,703**	**71,150**	147,134	59,035
- unlisted	**604**	**302**	706	353
	937,566	**463,818**	844,791	401,072
Loans and receivables				
Loans secured by mortgages	**35,106**	**189**	32,188	240
Other loans	**120**	**21**	117	29
	35,226	**210**	32,305	269
Investments in group undertakings				
Shares in fellow subsidiaries	**-**	**-**	250	250
Shares in subsidiary undertakings	**-**	**23,578**	-	22,173
	-	**23,578**	250	22,423
Total financial investments	**972,792**	**487,606**	877,346	423,764

All investments in group undertakings are unlisted

Included in equity securities of the group are options with a fair value of £1,685,000 (2006 £803,000), that are classified as held for trading All other financial investments are non-current Equity and debt securities, excluding options, are designated by the group to be measured at fair value through the income statement The directors consider that the carrying value of loans and receivables approximates to their fair value

23 Other assets	**2007**		2006	
	Group	**Parent**	Group	Parent
Receivables arising from insurance and reinsurance contracts	**£000**	**£000**	£000	£000
- due from contract holders	**19,886**	**16,471**	18,047	14,747
- due from agents, brokers and intermediaries	**49,047**	**28,461**	44,574	27,074
- due from reinsurers	**13,217**	**13,201**	8,358	8,141
Other receivables				
- accrued interest and rent	**8,509**	**4,221**	7,344	3,568
- other prepayments and accrued income	**3,770**	**3,354**	3,570	3,110
- amounts owed by related parties	**7,297**	**30,557**	889	22,026
- other debtors	**3,523**	**900**	2,757	450
	105,249	**97,165**	85,539	79,116

Other assets are current, except for loans to related parties, for which a maturity analysis is presented in note 4(a) The above carrying amounts are a reasonable approximation of fair value

The group has recognised a charge of £399,000 (2006 £29,000) in other operating and administrative expenses in the income statement for the impairment of its trade receivables during the year The company has recognised a charge of £288,000 (2006 credit of £39,000)

There has been no significant change in the credit quality 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, based on historic experience of credit losses

Movement in the allowance for doubtful debts	**2007**		2006	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
Balance at beginning of year	**2,948**	**2,808**	3,155	3,031
Movement in the year	**376**	**351**	(207)	(223)
Balance at end of year	**3,324**	**3,159**	2,948	2,808

The allowance for doubtful debts includes a provision of £440,000 (2006 £495,000) for the group and £344,000 (2006 £424,000) for the company, in respect of debtors that are individually determined to be impaired based on an assessment of their ageing profile and credit rating at the reporting date

Included within trade receivables of the group is £4,731,000 (2006 £3,914,000) overdue but not impaired, of which £3,437,000 (2006 £2,852,000) is not more than three months overdue at the reporting date Included within trade receivables of the company is £3,688,000 (2006 £3,097,000) overdue but not impaired, of which £2,824,000 (2006 £2,424,000) is not more than three months overdue at the reporting date

24 Cash and cash equivalents

	2007		2006	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
Cash at bank and in hand	**62,657**	**16,288**	75,947	29,127
Short term bank deposits	**118,346**	**91,492**	158,478	124,421
	181,003	**107,780**	234,425	153,548

25 Called up share capital

	Authorised		Issued, allotted and fully paid	
	2007	2006	**2007**	2006
	000s	000s	**£000**	£000
Ordinary shares of 10p each	**150,000**	150,000	**14,027**	14,027
8 625% Non-Cumulative Irredeemable Preference shares of £1 each	**68,950**	68,950	**66,450**	66,450
Unclassified shares of £1 each	**300**	300	**-**	-
	219,250	219,250	**80,477**	80,477

Movements in the number of shares in issue during the year were as follows	**2007**	2006
	000s	000s
Ordinary shares of 10p each		
At 1 January and 31 December	**140,270**	140,270
8 625% Non-Cumulative Irredeemable Preference shares of £1 each		
At 1 January	**66,450**	62,950
Shares issued	**-**	3,500
At 31 December	**66,450**	66,450

On winding up, the assets of the company remaining after payment of its liabilities are to be applied to holders of the Irredeemable Preference shares in repaying the nominal capital sum paid up on the shares and an amount equal to all arrears of accrued and unpaid dividends up to the date of the commencement of the winding up The residual interest in the assets of the company after deducting all liabilities belongs to the Ordinary shareholders

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

26 Share premium account	**2007**	2006
	£000	£000
At 1 January	**4,632**	3,792
Premium on shares issued	**-**	840
At 31 December	**4,632**	4,632

The premium on shares issued in the prior year is shown net of transaction costs of £121,000

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27 Retained earnings and other reserves

	Equalisation reserve £000	Revaluation reserve £000	Translation reserve £000	Retained earnings £000	Total £000
Group					
At 1 January 2006	20,790	910	3,745	195,296	220,741
Gross fair value gains on property	-	789	-	-	789
Tax on fair value gains on property	-	(230)	-	-	(230)
Reserve transfers	1,932	-	5	(1,937)	-
Currency translation differences	-	-	(4,316)	-	(4,316)
Profit for the period	-	-	-	54,569	54,569
Net charitable grant to ultimate parent undertaking	-	-	-	(5,600)	(5,600)
Dividends paid (see note 16)	-	-	-	(6,053)	(6,053)
At 31 December 2006	22,722	1,469	(566)	236,275	259,900
Gross fair value gains on property	-	(55)	-	-	(55)
Tax on fair value gains on property	-	16	-	-	16
Reserve transfers	(1,437)	-	-	1,437	-
Currency translation differences	-	-	5,996	-	5,996
Profit for the period	-	-	-	26,256	26,256
Net charitable grant to ultimate parent undertaking	-	-	-	(8,890)	(8,890)
Dividends paid (see note 16)	-	-	-	(6,281)	(6,281)
At 31 December 2007	21,285	1,430	5,430	248,797	276,942

27 Retained earnings and other reserves (continued)

	Equalisation reserve £000	Revaluation reserve £000	Translation reserve £000	Retained earnings £000	Total £000
Parent					
At 1 January 2006	20,030	425	2,952	141,397	164,804
Gross fair value gains on property	-	199	-	-	199
Tax on fair value gains on property	-	(69)	-	-	(69)
Reserve transfers	1,788	-	-	(1,788)	-
Currency translation differences	-	-	(2,722)	-	(2,722)
Profit for the period	-	-	-	45,256	45,256
Net charitable grant to ultimate parent undertaking	-	-	-	(5,600)	(5,600)
Dividends paid (see note 16)	-	-	-	(6,053)	(6,053)
At 31 December 2006	21,818	555	230	173,212	195,815
Gross fair value gains on property	-	-	-	-	-
Tax on fair value gains on property	-	15	-	-	15
Reserve transfers	(1,136)	-	-	1,136	-
Currency translation differences	-	-	3,406	-	3,406
Profit for the period	-	-	-	27,295	27,295
Net charitable grant to ultimate parent undertaking	-	-	-	(8,890)	(8,890)
Dividends paid (see note 16)	-	-	-	(6,281)	(6,281)
At 31 December 2007	20,682	570	3,636	186,472	211,360

The equalisation reserve is not distributable and must be kept in compliance with the solvency capital 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

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28 Statement of changes in equity	2007		2006	
	Group	Parent	Group	Parent
	£000	£000	£000	£000
Opening shareholders' equity	345,009	280,924	301,510	245,573
Total recognised income and expense for the year	32,213	30,716	50,812	42,664
Dividends paid	(6,281)	(6,281)	(6,053)	(6,053)
Net charitable grant to ultimate parent undertaking	(8,890)	(8,890)	(5,600)	(5,600)
Net proceeds from the issue of shares	-	-	4,340	4,340
Closing shareholders' equity	362,051	296,469	345,009	280,924

29 Insurance liabilities and reinsurance assets	2007		2006	
	Group	Parent	Group	Parent
	£000	£000	£000	£000
Gross				
Claims outstanding	489,770	401,106	420,805	352,435
Unearned premiums	179,468	135,779	170,265	131,344
Long term business provision	240,231	-	239,316	-
Total gross insurance liabilities	909,469	536,885	830,386	483,779
Recoverable from reinsurers				
Claims outstanding	134,915	109,963	111,781	95,652
Unearned premiums	52,076	37,912	47,184	36,832
Long term business provision	2,268	-	1,808	-
Total reinsurers' share of insurance liabilities	189,259	147,875	160,773	132,484
Net				
Claims outstanding	354,855	291,143	309,024	256,783
Unearned premiums	127,392	97,867	123,081	94,512
Long term business provision	237,963	-	237,508	-
Total net insurance liabilities	720,210	389,010	669,613	351,295
Gross insurance liabilities				
Current	360,304	270,797	329,269	253,121
Non-current	549,165	266,088	501,117	230,658
Reinsurance assets				
Current	99,209	74,725	87,004	69,643
Non-current	90,050	73,150	73,769	62,841

29 Insurance liabilities and reinsurance assets (continued)

(a) General business insurance contracts

(i) Reserving methodology

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

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

The selection of results for each accident year and for each portfolio depends on an assessment of the most appropriate method Sometimes a combination of techniques is used

(ii) Calculation of prudence and uncertainty margins

To reflect the uncertain nature of the outcome of the ultimate settlement cost of claims, and to ensure that prudent provisions are made, an addition is made to the most likely outcome The addition for prudence is assessed primarily by the Thomas Mack actuarial method, based on at least the 75th percentile confidence level for each portfolio For smaller portfolios where the Thomas Mack method cannot be applied, provisions have been calculated at a level intended to be equally prudent 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 special provisions for latent claims

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

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

(v) Change in assumptions

There are no significant changes in assumptions

29 Insurance liabilities and reinsurance assets (continued)

(vi) Sensitivity of results

The ultimate amount of claims settlement is uncertain and the group's aim is to reserve at a prudent level

If final settlement of insurance claims reserved for at the year end turns out to be 10% higher or lower than that included in these financial statements, the following pre-tax group loss or profit will be realised

		2007		2006	
		Gross	**Net**	Gross	Net
		£000	**£000**	£000	£000
Liability	- UK	**17,200**	**14,900**	16,500	13,800
	- Overseas	**6,600**	**5,500**	5,700	4,600
Property	- UK	**10,300**	**6,000**	6,900	3,900
	- Overseas	**6,200**	**2,800**	4,500	2,200
Motor	- UK	**3,200**	**2,300**	3,000	1,800
	- Overseas	**200**	**100**	200	100

(vii) 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 estimate of ultimate net claims cost for these classes across all territories

Group	**2001 £000**	**2002 £000**	**2003 £000**	**2004 £000**	**2005 £000**	**2006 £000**	**2007 £000**	**Total £000**
Estimate of ultimate claims								
At end of year	32,882	34,480	34,483	35,349	39,528	41,007	46,235	
One year later	32,098	29,269	30,253	34,867	32,780	40,976		
Two years later	27,680	26,140	29,791	29,447	31,287			
Three years later	26,476	24,934	28,897	28,486				
Four years later	24,423	21,787	26,142					
Five years later	23,011	20,393						
Six years later	22,562							
Current estimate of ultimate claims	22,562	20,393	26,142	28,486	31,287	40,976	46,235	216,081
Cumulative payments to date	(19,104)	(15,140)	(14,766)	(10,436)	(7,086)	(3,418)	(775)	(70,725)
Outstanding liability	3,458	5,253	11,376	18,050	24,201	37,558	45,460	145,356
Liability in respect of earlier years								58,682
Total net liability (for liability classes) included in insurance liabilities in the balance sheet								204,038

Parent	**2001 £000**	**2002 £000**	**2003 £000**	**2004 £000**	**2005 £000**	**2006 £000**	**2007 £000**	**Total £000**
Estimate of ultimate claims								
At end of year	28,943	28,770	27,762	28,642	30,653	31,402	34,571	
One year later	27,267	23,766	24,478	27,939	25,136	30,348		
Two years later	23,587	21,553	24,394	23,170	23,820			
Three years later	23,152	20,914	24,521	22,861				
Four years later	21,418	18,645	22,231					
Five years later	20,574	17,731						
Six years later	20,082							
Current estimate of ultimate claims	20,082	17,731	22,231	22,861	23,820	30,348	34,571	171,644
Cumulative payments to date	(17,139)	(13,336)	(13,029)	(9,421)	(6,030)	(3,032)	(590)	(62,577)
Outstanding liability	2,943	4,395	9,202	13,440	17,790	27,316	33,981	109,067
Liability in respect of earlier years								48,940
Total net liability (for liability classes) included in insurance liabilities in the balance sheet								158,007

29 Insurance liabilities and reinsurance assets (continued)

(b) Long term insurance and group life yearly renewable 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 For contracts insuring survivorship, an allowance is made for future mortality improvements based on trends identified in the data and in the continuous mortality investigations performed by independent actuarial bodies

Morbidity

No allowance is made for recovery from disability when setting reserves for claims in payment

Investment returns

Projected investment returns are based on actual yields for each asset class less an allowance for credit risk The risk adjusted yields after allowance for tax and investment expenses for the current valuation are

	2007		2006	
	With-profit	**Non-profit**	With-profit	Non-profit
UK and overseas government bonds non-linked	**3 58%**	**3 62%**	3 91%	3 94%
UK government index-linked	**n/a**	**1.17%**	n/a	0 68%
Corporate debt instruments non-linked	**4 15%**	**4 06%**	4 13%	3 99%
Corporate debt instruments index linked	**n/a**	**0 78%**	n/a	n/a
Equities and collective investment vehicles	**4 83%**	**1 70%**	4 58%	1 77%
Loans secured by mortgages	**n/a**	**6 36%**	n/a	6 13%
Cash and deposits	**2 50%**	**4 25%**	3 26%	3 84%
Land & buildings	**5 11%**	**5 11%**	3 28%	5 17%

A weighted average rate of investment return is derived by combining different proportions of the above financial assets in model portfolios, which are assumed to back each major class of liabilities

Renewal expense level and inflation

Numbers of policies in force and both projected and actual expenses have been considered when setting the base renewal expense level The unit renewal expense assumption for Funeral Plan business is £10 50 per annum (2006 £47 00 per annum) The unit renewal expense assumption for third-party administered term assurance business is £10 50 per annum (2006 £10 00 per annum) The base unit renewal expense assumption for other business increased to £68 00 per annum (2006 £47 00 per annum) As a consequence the additional expense reserve set up in 2006 in anticipation of this increase has now been released The level of unit renewal expenses charged to the with-profit fund is set The non-profit fund bears any surplus or deficit

Expense inflation is set with reference to the index-linked UK government bond rates of return and published figures for earnings inflation, and is assumed to be 4 5% per annum (2006 4%)

Tax

It has been assumed that current tax legislation and rates continue unaltered

(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 £0 3 million (2006 £4 2 million reduction)

Changes to longevity assumptions in line with industry developments have caused liabilities to increase by £2 3 million (2006 £0 5 million reduction)

The effect on insurance liabilities of the changes to unit renewal expense assumptions (described in (i) above) for non-profit business, including Funeral Plan business, was a £0 2 million increase (2006 £1 9 million reduction) For with-profit business the effect was a £3 8 million increase (2006 £0 3 million increase), partially offset by a £2 2m release of the additional expense reserve (2006 £2 2 million increase)

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29 Insurance liabilities and reinsurance assets (continued)

(iii) Sensitivity analysis

The sensitivity of profit before tax to changes in the key assumptions used to calculate non-profit fund insurance liabilities is shown in the following table

	Change in variable	Potential increase/ (decrease) in profit 2007 £000	2006 £000
Variable			
Deterioration in annuitant mortality	-10%	**3,000**	2,100
Improvement in annuitant mortality	+10%	**(3,600)**	(2,400)
Increase in fixed interest/cash yields	+1%pa	**800**	4,200
Decrease in fixed interest/cash yields	-1%pa	**(1,100)**	(1,300)
Decrease in equity and property values	-10%	**(1,000)**	200
Worsening of base renewal expense level	+10%	**(5,100)**	(1,800)
Improvement in base renewal expense level	-10%	**2,100**	1,800

Changes to with-profit liabilities have no direct effect on shareholders' equity

(iv) Available capital resources

	With-profit life fund £000	Non-profit life fund £000	Share-holders' fund £000	Total life business £000	Other activities £000	Group total £000
2007						
Shareholders' equity	-	**8,511**	**31,175**	**39,686**	**322,365**	**362,051**
Unallocated divisible surplus	**39,836**	-	-	**39,836**	**(26,556)**	**13,280**
Adjustments to assets/liabilities	**(1,523)**	**425**	**(840)**	**(1,938)**	**(45,051)**	**(46,989)**
Adjustments to actuarial liabilities	-	**(4,551)**	-	**(4,551)**	-	**(4,551)**
Total available capital resources	**38,313**	**4,385**	**30,335**	**73,033**	**250,758**	**323,791**
Policyholder liabilities						
- with-profit business	**114,755**	-	-	**114,755**		
- unit linked business	-	**51,965**	-	**51,965**		
- other investment business	-	**2,954**	-	**2,954**		
- other life insurance business	-	**123,208**	-	**123,208**		
Net actuarial liabilities on balance sheet	**114,755**	**178,127**	-	**292,882**		
2006						
Shareholders' equity	-	15,808	27,375	43,183	301,826	345,009
Unallocated divisible surplus	38,105	-	-	38,105	(28,001)	10,104
Adjustments to assets/liabilities	(1,565)	(2,143)	2,197	(1,511)	(42,218)	(43,729)
Adjustments to actuarial liabilities	-	(4,821)	-	(4,821)	-	(4,821)
Total available capital resources	36,540	8,844	29,572	74,956	231,607	306,563
Policyholder liabilities						
- with-profit business	121,156	-	-	121,156		
- unit linked business	-	53,184	-	53,184		
- other investment business	-	3,031	-	3,031		
- other life insurance business	-	116,352	-	116,352		
Net actuarial liabilities on balance sheet	121,156	172,567	-	293,723		

29 Insurance liabilities and reinsurance assets (continued)

Shareholders' equity in the non-profit fund represents the profits 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 The movement in the unallocated divisible surplus is analysed in note 31 The adjustments to assets/liabilities relate to both assets and liabilities which are not admissible for FSA solvency purposes The adjustment for the with-profit fund is the elimination of deferred acquisition costs The adjustments to the non-profit fund net assets are capitalised computer software and deferred income from investment contracts

Other activities include the general insurance business of the parent and its subsidiaries, 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 in the non-profit life fund, subject to the regulatory capital requirements of the fund itself, is available to meet requirements elsewhere in the group The unallocated divisible surplus is not available to meet requirements elsewhere in the group The capital requirements of the life business are based on the FSA 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

	With-profit life fund £000	Non-profit life fund £000	Share-holders' fund £000	Total life business £000
2007				
Published capital resources as at 31 December 2006	36,540	8,844	29,572	74,956
Effect of new business	7	(1,365)	-	(1,358)
Variance between actual and expected experience	188	2,916	-	3,104
Effect of changes to valuation interest rates	(611)	(1,948)	-	(2,559)
Effect of changes to unit renewal expense assumptions	(9)	(4,617)	-	(4,626)
Release of additional expense reserve	-	2,200	-	2,200
Effect of changes to annuitant mortality assumptions	(127)	(2,279)	-	(2,406)
Effect of change to inflation assumption	(8)	(581)	-	(589)
Effect of lapse assumptions	-	645	-	645
Other movements	2,333	570	763	3,666
Capital resources as at 31 December 2007	38,313	4,385	30,335	73,033

Assumptions, and the effect of changes in these assumptions on profit, are covered in the long term insurance and group life yearly renewable contracts section of this note

29 Insurance liabilities and reinsurance assets (continued)

(c) Movements in insurance liabilities and reinsurance assets

Group	Gross £000	Reinsurance £000	Net £000
Claims outstanding			
At 1 January 2007	**420,805**	**(111,781)**	**309,024**
Cash (paid)/received for claims settled in the year	**(207,736)**	**52,276**	**(155,460)**
Change in liabilities/reinsurance assets			
- arising from current year claims	**296,989**	**(85,295)**	**211,694**
- arising from prior year claims	**(30,071)**	**12,398**	**(17,673)**
Exchange differences	**9,783**	**(2,513)**	**7,270**
At 31 December 2007	**489,770**	**(134,915)**	**354,855**
Provision for unearned premiums			
At 1 January 2007	**170,265**	**(47,184)**	**123,081**
Increase in the period	**175,290**	**(50,614)**	**124,676**
Release in the period	**(170,433)**	**46,940**	**(123,493)**
Exchange differences	**4,346**	**(1,218)**	**3,128**
At 31 December 2007	**179,468**	**(52,076)**	**127,392**
Long term business provision			
At 1 January 2007	**239,316**	**(1,808)**	**237,508**
Effect of new business during the year	**14,355**	**(1,619)**	**12,736**
Effect of claims during the year	**(30,328)**	**868**	**(29,460)**
Changes in assumptions	**4,537**	**-**	**4,537**
Change in methodology	**907**	**-**	**907**
Other movements	**11,444**	**291**	**11,735**
At 31 December 2007	**240,231**	**(2,268)**	**237,963**
Claims outstanding			
At 1 January 2006	384,460	(103,566)	280,894
Cash (paid)/received for claims settled in the year	(167,413)	40,116	(127,297)
Change in liabilities/reinsurance assets			
- arising from current year claims	221,366	(50,637)	170,729
- arising from prior year claims	(11,071)	644	(10,427)
Exchange differences	(6,537)	1,662	(4,875)
At 31 December 2006	420,805	(111,781)	309,024
Provision for unearned premiums			
At 1 January 2006	166,531	(45,304)	121,227
Increase in the period	170,102	(46,878)	123,224
Release in the period	(163,360)	44,306	(119,054)
Exchange differences	(3,008)	692	(2,316)
At 31 December 2006	170,265	(47,184)	123,081
Long term business provision			
At 1 January 2006	217,648	(1,683)	215,965
Effect of new business during the year	35,623	(1,113)	34,510
Effect of claims during the year	(26,718)	332	(26,386)
Changes in assumptions	(1,219)	-	(1,219)
Change in methodology	663	-	663
Other movements	13,319	656	13,975
At 31 December 2006	239,316	(1,808)	237,508

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

29 Insurance liabilities and reinsurance assets (continued)

Parent	**Gross £000**	**Reinsurance £000**	**Net £000**
Claims outstanding			
At 1 January 2007	**352,435**	**(95,652)**	**256,783**
Cash (paid)/received for claims settled in the year	**(144,251)**	**41,963**	**(102,288)**
Change in liabilities/reinsurance assets			
- arising from current year claims	**213,724**	**(66,924)**	**146,800**
- arising from prior year claims	**(25,284)**	**11,693**	**(13,591)**
Exchange differences	**4,482**	**(1,043)**	**3,439**
At 31 December 2007	**401,106**	**(109,963)**	**291,143**
Provision for unearned premiums			
At 1 January 2007	**131,344**	**(36,832)**	**94,512**
Increase in the period	**133,248**	**(37,066)**	**96,182**
Release in the period	**(130,302)**	**36,225**	**(94,077)**
Exchange differences	**1,489**	**(239)**	**1,250**
At 31 December 2007	**135,779**	**(37,912)**	**97,867**
Claims outstanding			
At 1 January 2006	327,922	(91,095)	236,827
Cash (paid)/received for claims settled in the year	(115,239)	33,357	(81,882)
Change in liabilities/reinsurance assets			
- arising from current year claims	153,076	(40,567)	112,509
- arising from prior year claims	(9,401)	1,568	(7,833)
Exchange differences	(3,923)	1,085	(2,838)
At 31 December 2006	352,435	(95,652)	256,783
Provision for unearned premiums			
At 1 January 2006	126,366	(34,151)	92,215
Increase in the period	130,760	(36,398)	94,362
Release in the period	(124,671)	33,612	(91,059)
Exchange differences	(1,111)	105	(1,006)
At 31 December 2006	131,344	(36,832)	94,512

30 Investment contract liabilities

Group investment contract liabilities are financial liabilities at fair value through the income statement

	2007 £000	2006 £000
Current	2,210	2,110
Non-current	52,709	54,104
Total	54,919	56,214

Investment contracts consist of unit-linked contracts and temporary annuities The benefits offered under the unit-linked contracts are based on the return from selected equities and debt securities

During the year there has been no change in the carrying value of these liabilities resulting from their credit risk (2006 £nil)

The amount of the change in the fair value of these liabilities that is not attributable to the change in the underlying assets is a reduction of £300,000 (2006 an increase of £1,508,000)

The maturity value of these financial liabilities is determined by the fair value of the linked assets, at maturity date, or by the fair value of future benefits which will mature At the maturity date there will be no difference between the carrying amount and the maturity amount

31 Unallocated divisible surplus

The unallocated divisible surplus in the group's with-profit fund is calculated as the value of net assets less the insurance liabilities, and is wholly available for allocation to with-profit policyholders The group does not participate in this surplus The fair value cannot be measured reliably due to the discretionary nature of these benefits

The movement in the unallocated divisible surplus during the period can be analysed as follows

	2007 £000	2006 £000
At 1 January	38,105	29,706
Net earned premiums	7,533	10,654
Fee and commission income	103	103
Investment income	7,424	6,934
Fair value gains	2,403	11,933
Claims	(20,355)	(20,505)
Change in insurance liability		
- reversionary bonuses allocated	(2,774)	(3,301)
- other	9,171	6,084
Reinsurance recoveries	53	19
Fees, commissions and other acquisition costs	(260)	(257)
Other operating and administrative expenses	(1,156)	(1,118)
Finance costs	(102)	(336)
Tax expense	(309)	(1,811)
At 31 December	39,836	38,105

In 2007, profits allocated by the with-profit fund in the form of discretionary benefits amounted to £5,321,000 (2006 £5,467,000)

32 Finance lease obligations

	2007		2006	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
Minimum lease obligations payable				
Within 1 year	**759**	**707**	706	608
Within 2 to 5 years	**991**	**977**	1,188	1,118
	1,750	**1,684**	1,894	1,726
Less future finance charges	**(143)**	**(142)**	(199)	(191)
Present value of finance lease obligations	**1,607**	**1,542**	1,695	1,535
The present value of minimum lease obligations payable				
Within 1 year	**659**	**608**	232	177
Within 2 to 5 years	**948**	**934**	1,463	1,358
	1,607	**1,542**	1,695	1,535

Finance lease obligations are effectively secured as the rights to the leased assets revert to the lessor in the event of default The carrying amount of finance lease obligations equates to fair value

33 Provisions for other liabilities and charges

	Regulatory levies	Restructuring and other provisions	Total
	£000	£000	£000
Group			
At 1 January 2007	5,560	1,111	6,671
Additional provisions	1,652	580	2,232
Used during year	(619)	(87)	(706)
Exchange differences	-	10	10
At 31 December 2007	6,593	1,614	8,207
Current	6,593	427	7,020
Non-current	-	1,187	1,187
Parent			
At 1 January 2007	4,906	1,000	5,906
Additional provisions	1,522	580	2,102
Used during year	(619)	(87)	(706)
At 31 December 2007	5,809	1,493	7,302
Current	5,809	427	6,236
Non-current	-	1,066	1,066

Regulatory levies

The group is required under the Financial Services Compensation Scheme to contribute towards any levies raised on UK general and life insurance business The amount of the levy is based on a proportion of UK written premium

Restructuring

The provision for restructuring costs relates to costs in respect of onerous leases and redundancies arising from the restructure of the group's UK operations

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

34 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

	Unrealised gains on investments £000	Net retirement benefit assets £000	Equalisation reserve £000	Other differences £000	Total £000
Group					
At 1 January 2006	35,424	2,996	6,237	(3,878)	40,779
Charged/(credited) to income	6,169	(153)	580	108	6,704
Charged to equity	161	-	-	69	230
Exchange differences	12	-	-	132	144
At 31 December 2006	41,766	2,843	6,817	(3,569)	47,857
Charged/(credited) to income	475	(2)	(402)	81	152
(Credited)/charged to income - resulting from reduction in tax rate	(2,289)	(186)	(455)	117	(2,813)
Credited to equity - resulting from reduction in tax rate	-	-	-	(16)	(16)
Exchange differences	(3)	6	-	(261)	(258)
At 31 December 2007	39,949	2,661	5,960	(3,648)	44,922

	Unrealised gains on investments £000	Net retirement benefit assets £000	Equalisation reserve £000	Other differences £000	Total £000
Parent					
At 1 January 2006	27,735	2,715	6,009	(2,127)	34,332
Charged/(credited) to income	5,188	(191)	536	98	5,631
Charged to equity	-	-	-	69	69
Exchange differences	-	-	-	81	81
At 31 December 2006	32,923	2,524	6,545	(1,879)	40,113
Charged/(credited) to income	2,003	(58)	(318)	444	2,071
(Credited)/charged to income - resulting from reduction in tax rate	(2,214)	(164)	(436)	114	(2,700)
Credited to equity - resulting from reduction in tax rate	-	-	-	(16)	(16)
Exchange differences	(3)	6	-	(93)	(90)
At 31 December 2007	32,709	2,308	5,791	(1,430)	39,378

34 Deferred tax (continued)

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

	2007		2006	
	Group	Parent	Group	Parent
	£000	£000	£000	£000
Deferred tax liabilities	47,677	39,934	50,077	40,843
Deferred tax assets	(2,755)	(556)	(2,220)	(730)
	44,922	39,378	47,857	40,113

The group has unused tax losses of £25,449,000 (2006 £23,277,000) arising from pension 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

The aggregate amount of temporary differences associated with undistributed earnings of subsidiaries and branches for which deferred tax liabilities has not been recognised is £49,334,000 (2006 £41,132,000) No liability has been recognised in respect of these differences because the group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future

35 Deferred income	2007		2006	
	Group	Parent	Group	Parent
	£000	£000	£000	£000
Reinsurance commissions receivable	16,062	12,220	14,482	11,978
Investment contract fee income	600	-	658	-
Total	16,662	12,220	15,140	11,978
Current	16,092	12,220	14,515	11,978
Non-current	570	-	625	-

Investment contract fee income comprises front-end fees received from investment contract holders as a prepayment for asset management and related services These amounts are non-refundable and are released to income as the services are rendered

36 Other liabilities	2007		2006	
	Group	Parent	Group	Parent
	£000	£000	£000	£000
Creditors arising out of direct insurance operations	1,999	721	3,054	604
Creditors arising out of reinsurance operations	11,350	7,123	19,362	15,308
Other creditors	7,973	4,929	6,788	4,332
Amounts owed to related parties	6,762	710	2,803	4,200
Accruals	5,223	4,106	9,589	7,721
	33,307	17,589	41,596	32,165

Other liabilities are current, except for loans from related parties for group, for which a maturity analysis is presented in note 4(a) The above carrying amounts are a reasonable approximation of fair value

37 Commitments

Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows

	2007		2006	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
Property, plant and equipment	**353**	**331**	18	-

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

	2007		2006	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
Within 1 year	**2,087**	**1,749**	1,918	1,656
Within 2 to 5 years	**6,364**	**5,209**	6,352	5,395
After 5 years	**8,512**	**7,606**	9,322	8,366
	16,963	**14,564**	17,592	15,417

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

	2007		2006	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
Within 1 year	**2,284**	**1,856**	2,320	1,937
Within 2 to 5 years	**6,831**	**6,216**	6,966	6,076
After 5 years	**6,417**	**6,417**	6,972	6,972
	15,532	**14,489**	16,258	14,985

Operating lease rentals charged to the income statement during the year are disclosed in note 11

38 Parent and subsidiary undertakings

Company status, ultimate parent and controlling party

The company is a public limited company incorporated and domiciled in England and is a wholly owned subsidiary of Ecclesiastical Insurance Group plc Its ultimate parent and controlling company is Allchurches Trust Limited Both companies are incorporated and operate in Great Britain and copies of their financial statements are available from the registered office as shown on page 5 The parent companies of the smallest and largest groups for which group financial statements are drawn up are Ecclesiastical Insurance Office plc and Allchurches Trust Limited respectively All the subsidiaries listed are included within the consolidated financial statements Voting rights are in line with the holdings of ordinary shares

Subsidiary undertakings	Share capital	Holding of shares by Parent	Holding of shares by Subsidiary
Incorporated and operating in Great Britain, engaged in investment, insurance and financial services or other insurance related business			
Allchurches Mortgage Company Limited	Ordinary shares	100%	
	6% Non-Cumulative Redeemable Preference shares	100%	
Ansvar Insurance Company 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%	
Incorporated and operating in Australia, engaged in insurance business			
Ansvar Insurance Limited	Ordinary shares	100%	
Incorporated and operating in New Zealand, engaged in insurance business			
Ansvar Insurance Limited	Ordinary shares		100%

In addition to the above subsidiaries, the Ecclesiastical Investment Funds are consolidated into the group results because in substance the group exerts operational control over the funds, by virtue of Ecclesiastical Investment Management Limited being Authorised Corporate Director of the funds

Additionally, there are five other wholly owned subsidiary undertakings of which the assets and contributions to group income are not significant

39 Non-adjusting post balance sheet event

On 21 February 2008, the parent entered into a contract, conditional on regulatory approval, to acquire the issued shares of SEIG (2007) No 5 Limited, which, following a reorganisation, will own the insurance brokerage businesses of South Essex Insurance Group

40 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 Ecclesiastical Insurance Group plc, the group and parent's immediate parent company Group and parent other related parties comprise Beaufort House Trust Limited, a company under common control, the group's pension schemes, fellow subsidiary undertakings and the ultimate parent undertaking

2007	Parent £000	Subsidiaries £000	Other related parties £000
Group			
Trading, investment and other income, including recharges	7,242	-	566
Trading, investment and other expenditure, including recharges	8,053	-	1,438
Amounts owed by related parties	6,750	-	547
Amounts owed to related parties	6,750	-	12
Parent			
Trading, investment and other income, including recharges	492	18,332	101
Trading, investment and other expenditure, including recharges	7,563	9,495	1,242
Amounts owed by related parties	6,750	23,273	534
Amounts owed to related parties	-	710	-
2006			
Group			
Trading, investment and other income, including recharges	3	-	465
Trading, investment and other expenditure, including recharges	756	-	1,750
Amounts owed by related parties	-	-	889
Amounts owed to related parties	2	-	2,801
Parent			
Trading, investment and other income, including recharges	3	18,334	465
Trading, investment and other expenditure, including recharges	756	14,764	1,337
Amounts owed by related parties	-	21,144	882
Amounts owed to related parties	2	1,398	2,800

In addition to the above amounts, the company provided services of £7,000 (2006 £6,000) free of charge to Allchurches Trust Limited, the ultimate parent company

During the year the company purchased the entire ordinary share capital of Allchurches Mortgage Company Limited from Allchurches Trust Limited, the ultimate parent company

During the year, the company received premiums, commission and reinsurance recoveries via a related party insurance agency amounting to £46,733,000 (2006 £45,495,000) and paid reinsurance protection, commission and claims amounting to £36,449,000 (2006 £37,700,000)

Parent investments in related party mutual funds of £109,674,000 (2006 £99,893,000) are included in listed equity securities in note 22 to the financial statements

Transactions and services within the group are made on commercial terms Amounts outstanding are unsecured, are not subject to guarantees, and will be settled in cash No provisions have been made in respect of these balances

Key management compensation is disclosed in note 13

Ecclesiastical Insurance Office plc

United Kingdom Regional Underwriting Centres

Birmingham	Regional Manager	T Bloomer
	Office	7th Floor, 9 Colmore Row, Birmingham B3 2BJ
	Tel	0121 214 6000
City	Regional Manager	G J Merriman FCII
	Office	19-21 Billiter Street, London EC3M 2RY
	Tel	020 7528 7363
Eastbourne	Regional Manager	A M M Fraser ACII
	Office	31 St Leonards Road, Eastbourne, Sussex BN21 3UR
	Tel	01323 438988
Gloucester	Regional Manager	C Robertson ACII
	Office	Fitzalan House, Park Road, Gloucester GL1 1LZ
	Tel	01452 422226
Manchester	Regional Manager	A C Pearce
	Office	Lincoln House, 1 Brazennose Street, Manchester M2 5FJ
	Tel	0161 832 2616
Newcastle	Regional Manager	K Hall ACII
	Office	1 Hood Street, Newcastle Upon Tyne, Newcastle NE1 6JQ
	Tel	0191 261 0336

Ecclesiastical Insurance Office plc

International Branches

Canada	General Manager and Chief Agent Chief Office	S J Whyte 20 Eglinton Avenue West, Suite 2200, P O Box 2004, Toronto, Ontario M4R 1K8
	Manager Atlantic Region	B Durkee 1969 Upper Water Street, Suite 2106, Purdy's Wharf, Tower 2, Halifax, Nova Scotia B3J 3R7
	Manager Western Region	B Dietz Suite 630 Box 20, Bow Valley Square 1, 202-6th Avenue S W , Calgary, Alberta T2P 2R9
	Manager Vancouver Branch	E M Mak Suite 1795, Two Bentall Centre, 555 Burrard Street, Box 239, Vancouver, British Columbia V7X 1M9
	Manager Central Region	S Rowley 20 Eglinton Avenue West, Suite 2200, P O Box 2004, Toronto, Ontario M4R 1K8
	Manager National Programmes	J Williamson 20 Eglinton Avenue West, Suite 2200, P O Box 2004, Toronto, Ontario M4R 1K8
Republic of Ireland	Manager Office	R M Foley Fitzwilliam Business Centre, 77 Sir John Rogerson's Quay Dublin 2

Ecclesiastical Insurance Office plc

Insurance Subsidiaries and Agencies

Ansvar Insurance Company Limited	Managing Director	I J Simpson
	Office	Ansvar House, St Leonard's Road, Eastbourne BN21 3UR
	Tel	01323 737541
Ecclesiastical Underwriting Management Limited	Director and Underwriter	K P Cannon FCII
	Office	19-21 Billiter Street, London EC3M 2RY
	Tel	020 7283 0666
Ecclesiastical Life Limited	Chairman	M H Tripp BSc, ARCS, FIA
	Head Office	Beaufort House, Brunswick Road, Gloucester, GL1 1JZ
Ansvar Insurance Limited	Managing Director	J Peberdy ANZIIF (Snr Assoc)
	Head Office	PO Box 1655, Level 18, 303 Collins Street, Melbourne 3000
	Regional Manager	L Lees ANZIIF (Snr Assoc)
	Victoria	PO Box 1655, Level 13, 303 Collins Street, Melbourne 3000
	Regional Manager	A Garland
	New South Wales	PO Box 2403, Level 1, 18 Smith Street, North Parramatta 1750
	Regional Manager	D Witherington ANZIIF (Snr Assoc)
	Queensland	PO Box 747, Level 15, 127 Creek Street, Brisbane 4000
	Regional Manager	J Jones ANZIIF (Snr Assoc)
	South Australia	PO Box 338, 202 Glen Osmond Road, Fullarton 5063
	Regional Manager	M Thomas ANZIIF (Snr Assoc)
	Western Australia	PO Box 840, Level 3, 679 Murray Street, West Perth 6872
Ansvar Insurance Limited	Manager for New Zealand	D Leather MBA
	Head Office	PO Box 7042, Wellesley Street, Auckland 1036

Ecclesiastical Insurance Office plc

Notice of Meeting

NOTICE is hereby given that the annual general meeting of Ecclesiastical Insurance Office plc will be held at Beaufort House, Brunswick Road, Gloucester, GL1 1JZ on Tuesday, 24 June 2008 at 12 15 pm for the following purposes

Ordinary business

1 To receive the report of the directors and accounts for the year ended 31 December 2007 and the report of the auditors thereon

2 To re-elect The Rt Revd N Baines as a director

3 To re-elect Mr W M Samuel as a director

4 To re-elect The Venerable N Peyton as a director

5 To elect Mr J F Hylands as a director

6 To elect Sir Philip Mawer as a director

7 To elect Mr A Latham as a director

8 To consider the declaration of a dividend

9 To re-appoint Deloitte & Touche LLP as auditors and authorise the directors to fix their remuneration

Special business

To consider and if thought fit to pass the following resolution as a special resolution

10 That the Articles of Association produced to the meeting and initialled by the chairman of the meeting for the purpose of identification be adopted as the Articles of Association of the company in substitution for, and to the exclusion of, the existing Articles of Association

By order of the board

Mrs R J Hall, Secretary
26 March 2008

A member holding ordinary shares is entitled to appoint a proxy (who need not be a member of the company) to exercise all or any of his rights to attend speak and vote on his behalf at the meeting Such a member may appoint more than one proxy in relation to the annual general meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member

This notice is sent for information to the holders of 8 625% Non-Cumulative Irredeemable Preference shares who are not entitled to attend and vote at the meeting