Company Number 24869

ECCLESIASTICAL

ECCLESIASTICAL INSURANCE OFFICE plc

2008 ANNUAL REPORT

Ecclesiastical Insurance Office plc

2008 Annual Report

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Ecclesiastical Insurance Office plc

Group Financial Highlights

	2008 £million	2007 £million
Gross premiums written		
General business	**384.7**	365.7
Long term business	**18.9**	21.2
Total	**403.6**	386.9
(Loss)/profit before tax	**(22.5)**	35.6
(Loss)/profit attributable to equity holders	**(15.4)**	26.3
Total shareholders' equity	**342.3**	362.1
Total assets	**1,530.2**	1,556.0

Ecclesiastical Insurance Office plc

Chairman's Statement

2008 will go down in history as a pivotal year in the unfolding of the credit crunch. Enormous challenges faced the banking system and the consequences for all of us could very well prove to be the worst set of economic circumstances for 80 years.

Despite these difficult times, Ecclesiastical has achieved much and its core insurance businesses have performed well. We have not been able to avoid the consequences of falling stock markets, but it is comforting to report that our shareholders' funds ended the year at £342.3 million, only 5% down on their high point at the end of 2007. Regardless of this slight fall, our funds have grown substantially over the past few years and our financial position remains strong.

Our group combined operating ratio was 100.8%, which is a reflection of some unusually poor claims experience in our London market operation. Insurance markets generally remained competitive – that is prices on all fronts remained under pressure and we continued to see some reductions especially for larger policies. In these circumstances, achieving a 95% combined operating ratio in our main UK general insurance business was satisfactory. Ansvar UK, and our business in Ireland produced excellent results, while our international business in Australia and Canada performed in line with plans.

We welcome South Essex Insurance Brokers, which we acquired in April, into the group. This represents a step forward in our strategy to broaden the range of advice we can offer our customers.

We have always taken a long term investment perspective and we hold to the view that over time equities provide higher real returns than fixed interest securities. Our financial strength has allowed us to accept more volatility in investment results than other companies. The consequences of this policy showed through in 2008 when despite severe turmoil in the investment markets marked by sharp falls in equities and corporate bonds, the investment portfolios that support our general and life businesses remained resilient. Our investment management team have coped well with a very turbulent year, and they relaunched our ethical investment OEICs under the banner of Ecclesiastical Investment Management, where the Amity brand celebrated its 20th year. We were very pleased with public recognition for the performance of our funds including a short listing for fund manager of the year and the Lipper award for our higher income fund.

I have already mentioned the poor claims experience resulting from our London Market business (Ecclesiastical Underwriting Management Limited), but elsewhere the level of claims was generally better than 2007. We suffered little by way of catastrophe weather-related claims. Theft of metal incidents abated towards the end of 2008 as a result of our risk management advice, underwriting actions, falling commodity prices and improved vigilance by our customers. Our efforts to tackle the metal theft epidemic were recognised as we won the Risk Management Award at the British Insurance Awards.

Our financial services business made good progress, although again the published results demonstrated the impact of falling stock markets. The first full year of focusing on giving advice and selling other companies' products was a successful step forward. We exceeded our overall premium plans and also strengthened our link with the National Association of Funeral Directors.

The board is satisfied that despite the global economic circumstances our business is strong, and they expressed their confidence by making a £7 million grant to Allchurches Trust. This, as mentioned last year, is in line with our policy of making grants at a sustainable level over the full underwriting cycle. This is also our biggest annual grant ever, building upon the past two years of exceptional results where we also gave 'special' grants.

Last year I mentioned that a review of strategy had been undertaken, and I am glad to report continued good progress in implementing our plans. We have refined our products, and increased our profile in our target markets. At the same time we have started a programme aimed at reducing complexity, improving efficiency and streamlining systems. In doing so we have been careful to make sure we do not reduce the personal aspects of our service and to retain, and indeed strengthen, our ethical approach to business. More is said about this in the Directors' Report.

Ecclesiastical Insurance Office plc

Chairman's Statement

Our links with our corporate partners continued to flourish. Our people enthusiastically participated in fundraising activities for The Children's Society and we also sponsored their national fundraising walks. We supported English Heritage's Heritage at Risk initiative and sponsored their events programme. A number of good causes local to all of our offices were also supported by our staff.

In 2008 we joined ClimateWise, HRH The Prince of Wales UK initiative for insurers to look both at their own environmental policy and also at their interaction with their customers. Our view is that climate change is a serious challenge and that we can help by contributing to research and by having a sense of social responsibility to take it seriously. Building on last year's comment that we support plans for carbon neutrality, we now have clear policies to improve our own position and to help customers assess their status.

On the regulatory front we have seen global attention turn to the banking industry. There will be consequences for all financial services as lessons learned are more widely applied. We support changes for the greater good of the society we serve but we hope these lessons will not result in increased bureaucracy. We continue to ensure our governance is in line with best practices; we continue to strengthen the role of the board in terms of its oversight; we continue to review the management of risk and deployment of capital. Again there is more detail in the Directors' Report.

The Association of British Insurers has played an active role in lobbying and coordinating on behalf of its members and we have fully engaged with this. We supported the ABI's continued lobbying on flood controls. We also shared our views on reviews of transparency in the way insurance intermediaries are rewarded and the industry's approaches to injury and other liability claims.

We are living through a period of change both in senior management and on our board. I mentioned last year that Sir Philip Mawer had returned to support us, rejoining the board in February 2008. Also as indicated, Dieter Losse retired as a director and Deputy Chairman in March. We were delighted that Will Samuel agreed to take up the role of Deputy Chairman.

We welcomed Tony Latham in March 2008; he brings a wealth of insurance knowledge and insight into current market issues, having been a senior executive with RSA. Amongst other roles he is currently chairman of Pool Re. Tony also joined the Group Audit, the Remuneration and the Finance and Investment Committees.

Change continues this year as we bid farewell to George Prescott who retires from the group board on 2 June 2009. We thank him most sincerely for over 29 years of service to Ecclesiastical and at the same time we welcome Mark Hews who will become Chief Financial Officer and director.

There have been other changes to the membership of our various board committees and these are set out in detail in the Directors' Report.

The group's management has also evolved. In December we strengthened the team that leads our business and Michael Tripp talks about this in his review of operations. We were joined by Graham Johnson as Transformation Director.

After this year's AGM, I too will be retiring from the board. I have enjoyed my time with Ecclesiastical and hope you share with me the feeling of progress. Will Samuel will pick up the baton and I wish him every success. I hope to retain my connection through membership of the board of Allchurches Trust.

All in all, if 2007 was a year of challenge and change, 2008 was a whirlwind. The world around us will never be quite the same again. The banking system will change and society has still to live through the worst consequences of recession. Business is global and communication is instant. In such a world it is important that Ecclesiastical retains its underlying values, and yet is able to take advantage of its medium size, behave nimbly and with a sense of direction make progress in the face of the competitive sector in which it does business. On behalf of the board I believe I can say that the business has made substantial progress in embracing the tools and techniques of the 21st century. It is a business with energy and a distinct sense of purpose; at a time of turbulence its values and all it stands for are beacons of trust and credibility. The company is its people and I am more grateful than I can say for all they give. Their true support for the business, each other and our customers is remarkable. I feel more confident now than ever before about the good heart of the business and its prospects for the future.

Nick Sealy
Chairman

Ecclesiastical Insurance Office plc

Directors and Executive Management

Directors	* N. J. E. Sealy FCA *Chairman* * W. M. Samuel BSc, FCA *Deputy 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 * A. P. Latham ACII * Sir Philip Mawer DLitt, LLD * The Venerable N. Peyton MA, BD, STM *Archdeacon of Newark* G. A. Prescott BA, FCA *Deputy Group Chief Executive* M. H. Tripp BSc, ARCS, FIA *Group Chief Executive* S. A. Wood BSc, FCII *Managing Director, UK & Ireland*
Group Executive Team	M. H. Tripp BSc, ARCS, FIA *Group Chief Executive* G. A. Prescott BA, FCA *Deputy Group Chief Executive* K. Bogue MA, FIA G. C. Johnson BSc, MBA J. Peberdy ANZIIF S. J. Whyte MC Inst M, ACII S. A. Wood BSc, FCII *Managing Director, UK & Ireland*
Company Secretary	Mrs R. J. Hall FCIS
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 LLP, London
Consulting Actuaries	Watson Wyatt Limited, London
Solicitors	Speechly Bircham LLP, London
Registrar	Computershare Services PLC, The Pavilions, Bridgwater Road, Bristol BS13 8AE

* *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 is a Director of Allchurches Trust Limited and a Director of the Charities Investment Managers Ltd and a Trustee of Charibond.
Aged 70.

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 51.

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.
Aged 66.

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 61.

J. F. Hylands

Appointed to the Board in September 2007. Until March 2007 he was an Executive Director of Standard Life plc. He is a Director of Alliance Trust PLC, 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 and Chairman of the Management Board of the UK Actuarial Profession.
Aged 57.

A. P. Latham

Appointed to the Board in March 2008. Until December 2007 he was a member of the Group Executive of RSA Group plc. He is Chairman of Pool Reinsurance Limited, a director of Codan A/s and of Flagstone Reinsurance Limited. He also holds a number of other non-executive directorships in the wider insurance and reinsurance industry.
Aged 59.

W. M. Samuel
Deputy Chairman

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 57.

Sir Philip 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 61.

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 58.

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 committee of the Worshipful Company of Coopers. He is a Director of Mapfre Re and JP Morgan Cazenove Pension Trustee Limited.
Aged 64.

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 53.

S. A. Wood
Managing Director, UK & Ireland

Joined the group in September 2005 and is responsible for the General Insurance and Financial Services Businesses in the UK and Ireland. Appointed to the Board in January 2006.
Aged 48.

Ecclesiastical Insurance Office plc

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2008.

Group Chief Executive's review of operations
Last year, in my first review, words such as challenging and turbulent featured strongly. Little did we know back then exactly what 2008 had in store.

Our underlying insurance results for 2008 have been more than satisfactory. Gross written premium for 2008 was £403.6 million, up 4.3% in sterling terms. Our core UK business ended 2008 in a very strong position – showing excellent progress over the difficulties of 2007. However, the strength of our achievements is hidden behind the inevitable consequences of stock market losses and the issues arising from the wider global economic environment. Our headline pre-tax result is a loss of £22.5 million, and a drop in shareholder funds from £362 million to £342 million. Had the stock market stayed flat, the pre-tax result would have been strong.

The board consider that the underlying strength of the business in terms of solvency margins and combined operating ratio is such that they are confident and able to pay £7 million to Ecclesiastical's charitable owner Allchurches Trust. The Trust uses this grant to support the Church of England's cathedrals, dioceses and churches as well as many other good causes.

General insurance market conditions remained competitive, and although overall rates were flat there was considerable variation with increases in some areas being offset by decreases elsewhere. We were pleased that our general business gross written premium again nudged up 5%, to £384.7 million, in part helped by exchange rate movements. We have retained our underwriting discipline and at the same time improved our appetite for business.

The rating agencies Standard & Poor's and A M Best again commented positively on our progress and clear leadership. As a result both maintained our ratings which is quite an achievement in these difficult economic conditions.

A year of challenge and change
Last year I talked about my first impressions and our key corporate goals. It is a delight to report that the business has made progress on many fronts, and moved faster and further than I could have hoped.

In terms of being first choice for customers, progress with web-based sales, development of our proposition and products, maintenance of our exceptional customer service and feedback that we are first choice in our key target markets is highly encouraging. This progress has occurred across the group.

The second major thrust has been around culture change – increasing energy levels around a shared vision and developing stronger performance management systems. We completed six full groups of our leadership development programme. Its aim is to help our senior leaders understand what is required in today's global age – in particular that leadership is not just for the senior executive, we all have a part to play. This meant that well over 100 people, including many from outside the UK, benefited from significant personal development. We introduced a tighter performance review and strengthened objectives to really stretch individuals and ensure better alignment with corporate objectives. Much effort has also been put into communication and developing an open, transparent culture. There is always more to do, but good progress has been made.

The third thrust has been around simplification and setting stretching financial goals. This helps us to raise our sustainable grant to Allchurches Trust, whilst ensuring we are pricing competitively and delivering good value for money to our customers. As a result of changes in the business we have reluctantly had to lose some staff, who I want to thank for their contributions over the years. But at the same time we're also very focused on our future, and the organisation we need to become. I really feel that our people are more motivated now than ever.

General insurance – UK and Ireland
Having lived through the catastrophic flooding and theft of metal epidemic in 2007, 2008's claims experience proved slightly more benign. The market remained tough, with little if any evidence of rate increases except perhaps in the motor insurance market. In the latter part of the year there was a slow down in the influence of the consolidators. While distribution remains a battle ground, the difficulties some brokers and insurers are experiencing in accessing lending to support aggressive growth plans have perhaps been a blessing in disguise.

The rating environment in liability classes was soft, and we can only hope the market does not erode the margins needed for future claims. Property ratings were flat, except that some larger policies continued to attract discounts. Motor (which affects us less) showed some signs of increases, but probably insufficient to keep up with increasing claims frequency.

We were determined to take steps forward with our trilateral approach – we believe it is really important to have face to face contact with customers alongside our broker partners. This, together with the open and honest relationships we are fortunate enough to maintain with Church customers, meant there was some progress in moving property rates forward to keep pace with claims experience. Our controlled and disciplined underwriting approach continued to strengthen our position.

Last year we incurred a net cost of £12 million for theft of metal and related claims, and 2008 saw a continued high cost of these claims. However, we introduced limits, established risk management and underwriting requirements and took pricing action. There was a broad understanding by our customers of the underlying reasons for doing this. We were pleased that the combination of our action and the fall in commodity prices meant that metal theft claims in the last quarter of 2008 returned to 2006 levels. At the same time 2008 saw an absence of major weather claims making the year overall less troubled than 2007. Our efforts to tackle the metal theft epidemic were recognised with a British Insurance Award win.

Yet again, our UK church account continued to grow with 63 new churches joining as customers and regrettably 9 leaving us. The major successes in 2008 were associated with our expertise in protecting heritage buildings. We had some notable new business successes, including Chatsworth House and the Eden Project. We see the focus on heritage as our newest niche market as a key development. As well as successes face to face – both direct and via brokers – we have made good progress using the web. We are however keen to make sure that our use of the internet enhances our personal service and that our quality offering continues to differentiate us. We launched household and wedding insurance sales via the web in November 2008 and are pleased to report progress in line with expectations. Our household product retained its 5 star rating from Defaqto, an independent financial data collection and research company.

Ansvar UK had its best year ever with an exceptional profit before tax of £5.2 million and a combined ratio of 78%. In Ireland, our team delivered an impressive underwriting result and a combined ratio of 92%. Our London Market business, Ecclesiastical Underwriting Management Limited, had a poor year with an unprecedented high level of large one-off claims.

In the latter part of 2008 we announced the closure of our Newcastle and Eastbourne regional offices, as we reviewed, refined and strengthened our regional office structure. We now have three major regional offices covering the North from Manchester, the Midlands from Birmingham and the South from Gloucester together with a continued presence in London. We welcome three new regional directors to develop broker business in their areas. At the same time we strengthened our Methodist Insurance office team and further refined our customer handling processes.

General Insurance - International

Our major international accounts are run via subsidiaries in Australia and New Zealand under the Ansvar brand and Canada as an Ecclesiastical branch.

Australia's underwriting results reflect a tough year. The rise in both large and attritional claims mirrored experience across the market and a distinct reluctance from insurers to take underwriting action meant a hardening market hasn't materialised. Nevertheless, we were able to achieve increases in small and medium sized accounts and some aspects of personal lines, but more remains to be done in 2009. Our main book of business is the faith account, but in line with our group strategy we also made progress with care, charity and education markets.

In New Zealand, the story was similar but with claims and market conditions slightly less extreme. We also launched our new heritage product in the fourth quarter, and immediately gained the Auckland Museum alongside the Te Papa museum in Wellington.

In Canada progress was in line with our plans. Sales and renewals were ahead of 2007 and underwriting terms were maintained. Our approach is very much in line with our strategy in the UK, using risk control and trilateral working as the foundation on which to build a specialist reputation. Overall growth in local currency was around 7% and although some prior year claims meant loss ratios were slightly worse than expected, overall progress bettered our long term plans.

Other business outside the UK and Ireland is small and in run-off. Generally the run-off is proceeding well and overall there has been a small release of profit.

Ecclesiastical Insurance Office plc

Directors' Report

Financial Services
This was the first full year of operating on a multi-tie basis; that is focusing on the advice part of our proposition underpinned by products from six companies, one of which is provided by Ecclesiastical. Commission earned through this new vehicle, known as Ecclesiastical Financial Advisory Services amounted to £0.5 million. During the year various opportunities to improve processes were identified, and we continued to focus on a high standard of our advice. This stance and our ability to take a principled view are great strengths, and well respected by the clergy and others we serve.

The relaunch of our range of 'socially responsible' investment funds, including the 20 year old Amity fund led to IFAs placing new money with us. The funds helped us to stand out in a competitive market. The interest in ethical investment continues to grow, and our funds in particular ask important questions about the ethics of investing in various sectors. We have produced detailed research reports about investing in the oil, cocoa and nuclear industries for example. An increasing number of financial advisers are recognising the performance of our funds and the experience of our management team. At the end of 2008 our presence on several trading platforms helped us to offer our funds to a wider audience of financial advisers and increase sales. Coupled with our advice service we now have a baseline on which to develop different approaches to the market in the years ahead.

At the same time, the relationship with the National Association of Funeral Directors flourished and sales of the funeral plan more than exceeded expectations. During the year other group schemes including a link with 123 in Ireland, an online provider of personal insurance, also came to fruition.

All in all we beat our total written premium plans whilst at the same time managing to reduce expenses below budget. This in many ways was a highly successful year, so it is disappointing that the effects of drops in equity values and rises in credit spreads reduced the value of assets more than the drop in liabilities. Therefore, exacerbated by rules regarding tax treatment in the accounts, we are showing a large loss in our accounts.

Investment Management
In 2008 we saw a number of key banks fail and widespread financial volatility which affected equity and credit markets. We are now in the midst of what is arguably the worst financial crisis to hit the UK, and indeed the world, for at least 80 years. The FTSE100 started 2008 at 6456 and ended 31% down at 4434. Commodity prices have been rising dramatically over the past two years, but they have now started to drop rapidly as development around the world grinds to a halt. A lack of access to credit has impaired a great deal of business and financial activity. The property slide which many have been predicting for some time also set in.

In the midst of all this, we are pleased that whilst our overall investment return was a loss of some £53 million, driven by equity falls, the drop was significantly less than the market. Overall performance was ahead of benchmarks. Total funds under management, including our business money as well as our customers' funds, dropped by approximately 5% remaining around £1.1 billion. Although we are subject to stock market conditions like any other insurer, as part of our investment strategy we're not heavily exposed to higher risk investments such as hedge funds and have only very limited exposure to the US. We have our skilled and experienced fund managers to thank for our position. They were also recognised externally with awards for the management of our ethical retail funds.

Given the extreme volatility in investment markets and concerns over the banking industry in 2008, we reduced our exposure to equities. Equity prices have fallen so far that we reached the point where we would be selling at the bottom of the market which doesn't make good financial sense. So to protect ourselves against this risk we purchased futures on the FTSE 100 which has effectively reduced the impact we will feel of equity falls. This does of course reduce our potential gains, but crucially it protects us against excessive losses.

Broking
The acquisition of South Essex Insurance Brokers (SEIB) on 1 April 2008 marked a strategic step for us. Nine months on business is slightly ahead of expectations, although business volumes are slightly down due to underwriting action and loss of certain business, but this decline was more than matched by good expense control. Fee and commission income ran at around £4.7 million for the nine months since acquisition.

Owning a broker diversifies our earning stream and is less capital intensive than underwriting, whilst also opening mutual business development opportunities. SEIB continues to operate independently and we have strong disciplines around potential conflicts of interest. We are pleased with the broker's most important asset, its people, who remain enthusiastic and motivated. In 2009 the challenge is to work closer together, sharing expertise without damaging either SEIB's independence or inclination for entrepreneurial thinking.

Ecclesiastical Insurance Office plc

Directors' Report

Risk management and controls
We made further progress in ensuring our risk management conformed to best practice. Our risk management approach, based on the size of our organisation, builds on the typical cycle of identifying, assessing, deciding on action and mitigation, reporting and reviewing risk. We have been pleased that bringing operational risk management together with actuarial modelling has led to a much more joined up approach.

Our strong capital position is based on robust risk-based capital adequacy, a strong track record of reserving, and prudent reinsurance protection. Our solvency ratio, measured as closing shareholders' funds divided by net written premiums, was 130% at the end of 2008. Our capital base is well in excess of regulatory requirements and sufficient to withstand any potential earnings volatility that may still be to come from turbulent economic times such as these.

During the year we completed development of the modelling of Ecclesiastical's balance sheet which enables us to plan our future with greater clarity of risk. An assessment of our capital adequacy is now embedded in our business. We understand from third party feedback that our attitude to risk is commendable and a good example in the market. Coupled with our approach to risk modelling, this means we have a first class position for managing risk within our business and a solid platform upon which to build our future business developments.

Corporate and social responsibility
Corporate social responsibility (CSR) at Ecclesiastical is something we take seriously and is integral to our brand promise, vision and values. It is about running our business in a responsible way for all those we come into contact with. We focus on five main areas - customers, workplace, environment, community and suppliers. Each of these areas has a clear aim and links to other business strategies and policies.

2008 saw particular progress in involving our customers in identifying their ideal service experience, understanding employee engagement and their views on flexible working, and launching our environmental policy and action plans. In terms of community support, we had another strong year supporting The Children's Society and our local charities raising £75,386 through employee and company matching activity, and giving over 400 hours of work time to help a wide range of causes across the country. Our contracts management area now looks much more rigorously at environmental and people practices when assessing suppliers and revising our own policies such as switching to low emission hire cars.

We are also gaining external expertise, support and focus on more collaborative CSR activities through our membership of Business In the Community. This is an independent charity, endorsed by HRH Prince of Wales, to inspire businesses to improve the positive impact of business in society. On a practical level they provide access to like minded organisations in our region to share best practice and experiences, working together on key community issues such as homelessness or employability.

In Canada the focus was on our involvement with the Aga Khan Foundation Canada through national sponsorship and participation in the World Partnership Walks in six major Canadian cities. The aim here, in partnership with the Canadian International Development Agency, is to raise funds to solve global poverty through sustainable programmes centred on education, agriculture and enterprise. Our Internship (graduate) programme was expanded to include a three month module of CSR related work with the aim of 'walking a mile in our customers' shoes'. This involved three month long placements in non profit organisations putting our interns' degrees and business experience into practice and helping these organisations with activities such as volunteer database programmes, risk control, and general administration.

In Australia we've long recognised the importance of supporting the community and reflect this in the strategy and management of our business. There is a specific goal on community involvement - to be a valued and recognised contributor to the community. In 2008 we supported 68 youth based community education programmes through our Community Education Program grants. These grants represent 10% of profit after tax averaged over the previous three years. Involvement is also about giving time and 50% of our people spent a working day volunteering with a grant recipient or registered charity.

In conclusion

It is difficult to summarise here what was a momentous year. The chaos in world financial markets has cast a deep shadow. It will take some time to get the industry as a whole back on its feet and restore customers' confidence. But I believe we can do it, and a company like Ecclesiastical can lead the way.

Given we faced such turmoil, our results are even more pleasing and positive. The financial bottom line hides a great many achievements made throughout the year. We did a great deal of work re-shaping our business, for example purchasing an insurance broker and streamlining many areas of our operation. We kept a strict focus on our people through leadership training and planning to ensure we have exactly the right people to move us forward. We also worked hard to mould a new culture at Ecclesiastical, one that keeps hold of everything we do which is so valuable but also makes us more modern and dynamic. We strengthened and diversified our board, invested in new technology in particular through the web and further entrenched our presence in niche markets. The wider list of achievements on behalf of our customers goes on. This work will continue of course, because it is crucial we keep pace with the world around us.

Two years on and I continue to be excited by Ecclesiastical's potential, and pleased - if not satisfied - with how far we've come. I'm confident that my report next year will contain another long list of achievements and we will be much closer to becoming the organisation I know we can be.

Michael H. Tripp

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 85 and details of international branches are shown on page 88.

Ownership
At 24 March 2009 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, eight 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.

Mr S. Wood and Mr D. Christie retire by rotation and, being eligible, offer themselves for re-election. Mr N. J. E. Sealy retires by rotation and does not seek re-election at the annual general meeting. Mr W. M. Samuel was appointed as Deputy Chairman on 26 March 2008, and will succeed Mr N. J. E. Sealy as Chairman at the conclusion of the annual general meeting on 24 June 2009.

Mr G. A. Prescott has indicated his intention to resign as a director on 2 June 2009. The directors wish to convey their gratitude for his contribution to the board.

A proposal is to be put forward that Mr M. C. J. Hews be appointed to the board as an executive director with effect from 2 June 2009.

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 a group audit committee, an appointments committee and a remuneration committee, details of which are given below.

Neither the directors nor their connected persons held any beneficial interest in any shares or debentures of the group during the year ended 31 December 2008. 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 Financial Reporting Council's Combined Code on Corporate Governance. 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 UK listed 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)	A. P. Latham (from 3 June 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)	W. M. Samuel (from 3 June 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.

Ecclesiastical Insurance Office plc

Directors' Report

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

M. D. Couve (Chairman)
The Venerable N. Peyton
A. P. Latham (from 3 June 2008)

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.

Pension arrangements
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 the group's defined contribution scheme which is 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.

Directors' Report

Going concern
The group has considerable financial resources and, as a consequence, the directors believe the group is well placed to continue in operational existence for the foreseeable future, despite the current uncertain economic outlook. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Dividends	**2008**	2007
Dividends paid were as follows:	**£000**	£000
Irredeemable Preference shares - paid	**5,731**	5,731
Ordinary shares - interim paid	**-**	550
	5,731	6,281

The directors do not recommend a final dividend on the Ordinary shares (2007: £nil).

Charitable and political donations
Charitable donations paid and provided for by the Ecclesiastical group in the year amounted to £8.0 million (2007: £14.1 million).

During the last ten years, a total of £63.7 million (2007: £60.0 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.

Environment
In 2008, the company signed up to the ClimateWise principles, an initiative launched by HRH, The Prince of Wales together with over 40 leading organisations in the insurance industry. Signatory organisations are committed to taking action on climate change. The principles cover:

- Leading the way in analysing and reducing risks;
- Informing and engaging in public policy debate;
- Supporting climate awareness amongst customers;
- Incorporating climate change into investment strategies;
- Reducing the environmental impact of businesses; and
- Reporting in public on the actions taken, and being fully accountable.

Each organisation that has signed up to ClimateWise will undergo an annual independent review to report on progress made, and demonstrate this using supporting evidence. Our first progress report will be submitted in 2009.

We have made some significant changes already, and have plans for future activity. Key achievements include establishing an Environmental Strategy Group which monitors, manages and improves environmental performance throughout the group, launching a new environmental policy and being a sponsor of the South West Climate Change Impacts Partnership. We are awarding contracts to suppliers whose environmental policies are aligned with those of the group, we sponsor a local park and ride scheme in Gloucester and have also reduced our energy consumption by 26% across our main premises over the last two years.

Ecclesiastical Insurance Office plc

Directors' Report

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 2008, calculated in accordance with Schedule 7 to the Companies Act 1985, was 27 days (2007: 18 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 489 of the Companies Act 2006, a resolution proposing that Deloitte 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 conflicts of interest.

By order of the board

R. Hall

Mrs R. J. Hall
Secretary

24 March 2009

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 Act 1985 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Addressees of the annual report
The purpose of this report is to provide information to the members of the company. Neither the company nor its directors accept or assume responsibility to any person for this annual report (beyond the responsibilities arising from the production of this annual report under the requirements of company law).

Responsibility Statement
We confirm to the best of our knowledge:

- The financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and result of the group taken as a whole; and
- The directors' report, which incorporates the management report, includes a fair review of the development and performance of the business and the position of the group taken as a whole, together with a description of the principal risks and uncertainties that it faces.

By order of the board,

Michael Tripp
Group Chief Executive

George Prescott
~~Deputy Group~~ Chief Executive

24 March 2009

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 2008 which comprise the consolidated income statement, the consolidated and individual company statements of recognised income and expense, the consolidated and individual company balance sheets, the consolidated and individual company cash flow statements and the related notes 1 to 42. 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 (IFRS) 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.

Ecclesiastical Insurance Office plc

Independent Auditors' Report

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the group's affairs at 31 December 2008 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRS 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 2008;
- 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 LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
London
United Kingdom
24 March 2009

Ecclesiastical Insurance Office plc

Consolidated Income Statement

for the year ended 31 December 2008

	Notes	2008 £000	2007 £000
Revenue			
Gross written premiums	6	**403,608**	386,915
Outward reinsurance premiums	6	**(140,043)**	(132,094)
Net change in provision for unearned premiums	6	**(2,300)**	(1,183)
Net earned premiums		**261,265**	253,638
Fee and commission income	7	**38,764**	37,990
Net investment return	8	**(52,584)**	69,396
Total revenue		**247,445**	361,024
Expenses			
Claims and change in insurance liabilities	9	**(252,451)**	(267,833)
Reinsurance recoveries	9	**71,608**	73,357
Fees, commissions and other acquisition costs	10	**(74,582)**	(70,563)
Other operating and administrative expenses		**(66,645)**	(56,986)
Change in provisions for investment contract liabilities		**13,893**	265
Change in net asset value attributable to unitholders		**14,749**	(1,097)
Total operating expenses		**(293,428)**	(322,857)
Operating (loss)/profit	11	**(45,983)**	38,167
Finance costs	15	**(460)**	(832)
Transfers from/(to) the unallocated divisible surplus		**23,962**	(1,731)
(Loss)/profit before tax		**(22,481)**	35,604
Tax credit/(expense)	16	**7,088**	(9,348)
(Loss)/profit attributable to equity holders of the parent	30	**(15,393)**	26,256

Ecclesiastical Insurance Office plc

Consolidated and Parent Statement of Recognised Income and Expense

for the year ended 31 December 2008

	2008		2007	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
Net fair value (losses)/gains on property	**(28)**	**-**	(39)	15
Gain on currency translation differences	**6,396**	**3,426**	5,996	3,406
Net income recognised directly in equity	**6,368**	**3,426**	5,957	3,421
Result for the year after tax	**(15,393)**	**(11,565)**	26,256	27,295
Total recognised income and expense for the year	**(9,025)**	**(8,139)**	32,213	30,716

Ecclesiastical Insurance Office plc

Consolidated and Parent Balance Sheets

at 31 December 2008

	Notes	2008		2007	
		Group	**Parent**	Group	Parent
		£000	**£000**	£000	£000
Assets					
Goodwill and other intangible assets	19	**26,419**	**3,530**	4,807	2,187
Deferred acquisition costs	20	**34,048**	**24,286**	31,751	23,012
Deferred tax assets	37	**2,589**	**657**	2,755	556
Pension assets	21	**24,974**	**23,085**	21,276	20,017
Property, plant and equipment	22	**11,094**	**6,959**	10,522	6,528
Investment property	23	**24,561**	**21,305**	33,558	28,432
Financial investments	24	**954,425**	**534,641**	972,792	487,606
Reinsurers' share of contract provisions	32	**198,921**	**151,649**	189,259	147,875
Current tax recoverable		**538**	**300**	3,012	2,235
Other assets	26	**106,606**	**95,623**	105,249	97,165
Cash and cash equivalents	27	**146,009**	**77,465**	181,003	107,780
Total assets		**1,530,184**	**939,500**	1,555,984	923,393
Equity					
Share capital	28	**80,477**	**80,477**	80,477	80,477
Share premium account	29	**4,632**	**4,632**	4,632	4,632
Retained earnings and other reserves	30	**257,201**	**191,174**	276,942	211,360
Total shareholders' equity	31	**342,310**	**276,283**	362,051	296,469
Liabilities					
Insurance contract provisions	32	**956,146**	**571,344**	909,469	536,885
Investment contract liabilities	33	**40,943**	**-**	54,919	-
Unallocated divisible surplus	34	**15,874**	**-**	39,836	-
Finance lease obligations	35	**1,586**	**1,565**	1,607	1,542
Provisions for other liabilities and charges	36	**13,589**	**11,718**	8,207	7,302
Retirement benefit obligations	21	**5,021**	**5,021**	11,452	11,452
Deferred tax liabilities	37	**32,358**	**29,166**	47,677	39,934
Current tax liabilities		**2,914**	**129**	1,807	-
Deferred income	38	**18,200**	**12,764**	16,662	12,220
Other liabilities	39	**44,401**	**31,510**	33,307	17,589
Net asset value attributable to unitholders		**56,842**	**-**	68,990	-
Total liabilities		**1,187,874**	**663,217**	1,193,933	626,924
Total shareholders' equity and liabilities		**1,530,184**	**939,500**	1,555,984	923,393

The financial statements on pages 19 to 86 were approved by the board of directors on 24 March 2009 and signed on their behalf by:

Nicholas Sealy

N. J. E. SEALY Chairman

Michael H. Tripp

M. H. TRIPP Group Chief Executive

Ecclesiastical Insurance Office plc

Consolidated and Parent Cash Flow Statements

for the year ended 31 December 2008

	2008		2007	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
(Loss)/profit before tax	**(22,481)**	**(17,781)**	35,604	35,415
Adjustments for:				
Depreciation of property, plant and equipment	**2,159**	**1,675**	1,975	1,488
Loss/(gains) on disposal of property, plant and equipment	**88**	**(4)**	(16)	(12)
Amortisation of intangible assets	**1,694**	**854**	1,250	863
Net fair value losses/(gains) on financial instruments & investment property	**123,164**	**51,448**	(11,075)	(13,022)
Dividend and interest income	**(69,286)**	**(36,206)**	(54,780)	(27,901)
Finance expense	**460**	**221**	832	152
Changes in operating assets and liabilities:				
Net increase in insurance contract provisions	**28,705**	**26,775**	65,142	47,322
Net increase in reinsurers' share of contract provisions	**(4,871)**	**(2,298)**	(24,755)	(14,109)
Net decrease in investment contract liabilities	**(13,976)**	**-**	(1,295)	-
Net increase in deferred acquisition costs	**(1,300)**	**(780)**	(1,461)	(556)
Net increase in other assets	**(675)**	**(2,795)**	(19,604)	(19,792)
Net increase/(decrease) in operating liabilities	**2,067**	**8,025**	(5,422)	(11,827)
Net (decrease)/increase in other liabilities	**(37,137)**	**(2,015)**	12,024	4,343
Cash generated/(used) by operations	**8,611**	**27,119**	(1,581)	2,364
Dividends received	**16,023**	**8,328**	13,318	6,199
Interest received	**41,665**	**20,126**	39,154	20,147
Interest paid	**(460)**	**(221)**	(832)	(152)
Tax paid	**(2,229)**	**(707)**	(14,197)	(10,778)
Net cash from operating activities	**63,610**	**54,645**	35,862	17,780
Cash flows from investing activities				
Purchases of property, plant and equipment	**(2,138)**	**(1,643)**	(1,609)	(1,070)
Proceeds from the sale of property, plant and equipment	**48**	**-**	75	12
Purchases of intangible assets	**(2,392)**	**(2,158)**	(573)	(411)
Acquisition of subsidiary, net of cash acquired	**(20,781)**	**(22,851)**	(905)	(1,250)
Purchases of financial investments	**(492,376)**	**(208,727)**	(339,961)	(126,938)
Sale of financial investments	**412,323**	**150,710**	280,507	85,806
Net cash used by investing activities	**(105,316)**	**(84,669)**	(62,466)	(43,851)
Cash flows from financing activities				
Payment of finance lease liabilities	**(424)**	**(398)**	(396)	(368)
Repayment of other borrowings	**-**	**-**	(8,750)	-
Payment of group tax relief in excess of standard rate	**(72)**	**(1,878)**	-	-
Dividends paid to company's shareholders	**(5,731)**	**(5,731)**	(6,281)	(6,281)
Donations paid to ultimate parent undertaking	**(4,000)**	**(4,000)**	(15,500)	(15,500)
Net cash used by financing activities	**(10,227)**	**(12,007)**	(30,927)	(22,149)
Net decrease in cash and cash equivalents	**(51,933)**	**(42,031)**	(57,531)	(48,220)
Cash and cash equivalents at beginning of year	**181,003**	**107,780**	234,425	153,548
Exchange gains on cash and cash equivalents	**16,939**	**11,716**	4,109	2,452
Cash and cash equivalents at end of year	**146,009**	**77,465**	181,003	107,780

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

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 IFRS applicable at 31 December 2008 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.

The group has considerable financial resources and, as a consequence, the directors believe the group is well placed to continue in operational existence for the foreseeable future, despite the current uncertain economic outlook. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

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.

No reclassification of financial assets as permitted by Reclassification of Financial Assets, *Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures* has been made during the year. In addition, IFRIC Interpretation 11, *IFRS 2: Group and Treasury Share Transactions*, IFRIC Interpretation 12, *Service Concession Arrangements* and IFRIC Interpretation 14, *IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction* became effective during the year. These interpretations have not impacted on the group's results as the group has no share-based transactions or service concession arrangements, and has an unconditional right to any surplus arising in the group's defined benefit pension schemes.

The group has not adopted early IFRS 8, *Operating Segments*, IAS 1 (revised), *Presentation of Financial Statements* (both effective from 1 January 2009), IAS 27 (revised), *Consolidated and Separate Financial Statements* or IFRS 3 (revised), *Business Combinations* (both effective from 1 July 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. IAS 1 (revised) will require a statement of comprehensive income in place of the existing statement of recognised income and expense. IAS 27 (revised) will require transactions with non-controlling interests to be recorded in equity if there is no change in control and IFRS 3 (revised) will require some significant changes to accounting for business combinations. For example all acquisition related costs should be expensed.

Amendments to existing standards (Amendments to: IAS 23, IAS 32, IAS 39, IFRS 1, IFRS 2 and Improvements to IFRS's) have been issued but are not effective for 2008 year ends and have not been adopted early by the group. In addition, IFRIC Interpretation 13, *Customer Loyalty Programmes*, IFRIC Interpretation 15, *Agreements for Construction of Real Estates*, IFRIC Interpretation 16, *Hedges of a Net Investment in a Foreign Operation* and IFRIC Interpretation 17, *Distributions of Non-cash Assets to Owners* have been issued but are not effective for 2008 year ends. These amendments and interpretations are not expected to impact on the group's results.

As permitted by Section 230 of the Companies Act 1985, a separate profit and loss account for the company is not presented.

1 Accounting policies (continued)

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.

Operating profit or loss

Operating profit or loss is stated before finance costs and transfers to/from the unallocated divisible surplus.

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.

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.

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

1 Accounting policies (continued)

Foreign currency translation

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

1 Accounting policies (continued)

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.

Fee and commission income

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

Net investment return

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

Unrealised gains and losses are calculated as the difference between carrying value and original cost, and the movement during the year is recognised 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 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. Reinsurance recoveries are accounted for in the same period as the related claim. 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 Prudential sourcebook for Insurers. This statutory solvency basis of valuation is then adjusted by eliminating or adjusting certain reserves advised under insurance companies regulations and general contingency reserves. This adjusted basis is referred to as the modified statutory solvency basis. The consequent long term business provision is grossed up for the impact of reinsurance.

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.

Computer software

Computer software is carried at historical cost less accumulated amortisation, and amortised over a useful life of between 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.

Other intangible assets

Other intangible assets consist of acquired customer and distribution relationships, and are carried at cost at acquisition less accumulated amortisation after acquisition. Amortisation is on a straight-line basis over the weighted average estimated useful life of intangible assets acquired. The amortisation charge for the period is included in the 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.

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

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 derivatives or acquired principally for the purpose of selling in the near term.

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

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. 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. All derivatives are initially recognised in the balance sheet at their fair value, which usually represents their cost, including any premium paid. They are subsequently re-measured at their fair value with changes in the fair value recognised immediately in net investment return. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

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

Deferred acquisition costs

General insurance business

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

Long term business

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

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.

Insurance broking debtors and creditors

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

1 Accounting policies (continued)

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 within liabilities 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.

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.

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 result for the period and any adjustment to the tax payable in respect of previous periods.

Deferred tax is provided in full on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax is measured using tax rates expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled based on tax rates and 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.

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 21.

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 estimates 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:

2008		Type of risk				
		Property	Liability	Motor	Accident	Total
Group		£000	£000	£000	£000	£000
Territory						
United Kingdom	Gross	202,698	62,130	20,975	6,816	292,619
	Net	109,947	55,145	19,419	6,476	190,987
Australia and New Zealand	Gross	44,440	11,808	8,382	428	65,058
	Net	16,491	10,065	8,099	377	35,032
Canada	Gross	13,132	4,315	-	-	17,447
	Net	9,070	3,897	-	-	12,967
Other overseas	Gross	5,941	3,584	5	39	9,569
	Net	3,845	3,299	5	37	7,186
Total	Gross	266,211	81,837	29,362	7,283	384,693
	Net	139,353	72,406	27,523	6,890	246,172
Parent						
Territory						
United Kingdom	Gross	194,920	55,137	18,806	6,611	275,474
	Net	104,047	50,172	17,814	6,359	178,392
Canada	Gross	13,132	4,315	-	-	17,447
	Net	9,070	3,897	-	-	12,967
Other overseas	Gross	5,941	3,584	5	39	9,569
	Net	3,845	3,299	5	37	7,186
Total	Gross	213,993	63,036	18,811	6,650	302,490
	Net	116,962	57,368	17,819	6,396	198,545

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

3 Insurance risk (continued)

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

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 32 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 at 31 December 2008			
Life assurance	67,666	45,318	112,984
Pensions assurance	37,656	-	37,656
Pensions annuities in payment	-	69,192	69,192
Life annuities in payment	-	11,203	11,203
Permanent health insurance	-	380	380
Total	105,322	126,093	231,415
Investment products	-	40,943	40,943
Total technical provisions excluding outstanding claims, net of reinsurance	105,322	167,036	272,358
Long term business provision 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 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.

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 2009, this net cost is expected to total £0.6 million (2007: £1.1 million expected for 2008) and for surrenders it is expected to total £0.1 million (2007: £0.2 million expected for 2008). 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 £1.4 million (2007: £1.8 million) and £0.2 million (2007: £0.3 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;
- on withdrawals from the deposit administration contract for the purchase of immediate annuities for individual members; and
- on withdrawal of all benefits over a 10 year period.

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 2009 is expected to total £0.7 million (2007: £0.1 million expected for 2008). 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 £0.9 million (2007: increase to £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

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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.

Although the external environment has changed dramatically over the last year, there has been no change from the prior period in the nature of financial risks that the group is exposed to. The group's management and measurement of financial risks is informed by either stochastic modelling or stress testing techniques.

Categories of financial instruments

	Financial assets			Financial liabilities				
Group	Designated at fair value £000	Held for trading £000	Loans and receivables* £000	Designated at fair value £000	Held for trading £000	At amortised cost £000	Other assets and liabilities £000	Total £000
At 31 December 2008								
Financial Investments	**921,304**	**4,081**	**29,040**	-	-	-	-	**954,425**
Other assets	-	-	**103,367**	-	-	-	**3,239**	**106,606**
Cash and cash equivalents	-	-	**146,009**	-	-	-	-	**146,009**
Investment contract liabilities	-	-	-	**(40,943)**	-	-	-	**(40,943)**
Other liabilities	-	-	-	-	**(999)**	**(36,762)**	**(6,640)**	**(44,401)**
Net other	-	-	-	-	-	-	**(779,386)**	**(779,386)**
Total	**921,304**	**4,081**	**278,416**	**(40,943)**	**(999)**	**(36,762)**	**(782,787)**	**342,310**
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

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

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

	Financial assets			Financial liabilities				
Parent	Designated at fair value £000	Held for trading £000	Loans and receivables* £000	Designated at fair value £000	Held for trading £000	At amortised cost £000	Other assets and liabilities £000	Total £000
At 31 December 2008								
Financial Investments	**485,882**	-	**130**	-	-	-	**48,629**	**534,641**
Other assets	-	-	**93,218**	-	-	-	**2,405**	**95,623**
Cash and cash equivalents	-	-	**77,465**	-	-	-	-	**77,465**
Other liabilities	-	-	-	-	**(682)**	**(25,245)**	**(5,583)**	**(31,510)**
Net other	-	-	-	-	-	-	**(399,936)**	**(399,936)**
Total	**485,882**	-	**170,813**	-	**(682)**	**(25,245)**	**(354,485)**	**276,283**
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

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

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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 2008					
Assets:					
Debt securities	4.7	78,407	315,236	244,669	638,312
Mortgage and other loans	5.2	132	957	15,467	16,556
Non-profit reinsurers' share of long term business provisions	n/a	1,716	277	179	2,172
Other assets including insurance receivables	6.4	40,223	-	-	40,223
Cash and cash equivalents	2.1	146,009	-	-	146,009
		266,487	316,470	260,315	843,272
Liabilities:					
Finance lease obligations	11.5	371	1,215	-	1,586
Non-profit long term business provisions	n/a	2,898	1,905	123,462	128,265
Investment contract liabilities	n/a	1,917	4,977	34,049	40,943
		5,186	8,097	157,511	170,794
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

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

	Effective interest rate	Maturing within: 1 year or less	2-5 years	More than 5 years	Total
Parent	%	£000	£000	£000	£000
At 31 December 2008					
Assets:					
Debt securities	5.4	63,939	178,674	79,951	322,564
Mortgage and other loans	5.2	2	-	84	86
Loans to related parties	4.1	120	1,850	22,655	24,625
Other assets including insurance receivables	6.4	32,181	-	-	32,181
Cash and cash equivalents	1.5	77,465	-	-	77,465
		173,707	180,524	102,690	456,921
Liabilities:					
Finance lease obligations	11.5	350	1,215	-	1,565
		350	1,215	-	1,565
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

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 and 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 and asset values. 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. Collateral is held over loans secured by mortgages.

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/(liabilities) are shown below, representing effective diversification of resources:

	2008			2007	
	Group	**Parent**		Group	Parent
	£000	**£000**		£000	£000
Euro	**51,954**	**15,820**	Euro	51,726	24,233
Aus $	**31,011**	**(476)**	Aus $	38,963	6,958
Can $	**28,385**	**28,165**	Can $	24,288	24,270
US $	**(7,935)**	**(13,557)**	US $	21,681	14,848
Hong Kong $	**6,298**	**3,670**	Hong Kong $	18,132	9,488

(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 and futures contracts from time to time which would limit losses in the event of a fall in equity markets.

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

	2008		2007	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
UK	**85,284**	**132,520**	129,634	174,215
Europe	**44,823**	**20,856**	45,021	22,038
Hong Kong	**5,976**	**3,650**	7,176	3,409
USA	**6,040**	**1,646**	6,722	1,387
Other	**19,644**	**4,646**	22,708	6,796
Total	**161,767**	**163,318**	211,261	207,845

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 2008 £000	Potential increase/ (decrease) in profit 2007 £000	Potential increase/ (decrease) in other equity reserves 2008 £000	Potential increase/ (decrease) in other equity reserves 2007 £000
Interest rate risk	-100 basis points	**12,003**	8,144	**238**	106
	+100 basis points	**(12,140)**	(7,699)	**(228)**	(105)
Currency risk	-5%	**2,541**	4,745	**3,425**	2,809
	+5%	**(2,414)**	(4,508)	**(3,253)**	(2,669)
Equity price risk	+/-5%	**8,088**	10,563	**-**	-

Parent

Variable	Change in variable	Potential increase/ (decrease) in profit 2008 £000	Potential increase/ (decrease) in profit 2007 £000	Potential increase/ (decrease) in other equity reserves 2008 £000	Potential increase/ (decrease) in other equity reserves 2007 £000
Interest rate risk	-100 basis points	**7,090**	6,207	**149**	65
	+100 basis points	**(6,791)**	(5,775)	**(144)**	(63)
Currency risk	-5%	**207**	2,371	**1,663**	1,345
	+5%	**(196)**	(2,252)	**(1,580)**	(1,278)
Equity price risk	+/-5%	**8,166**	10,392	**-**	-

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 28% (2007: 30%).

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. With the exception as noted below, both the group and the regulated entities within it have complied with all externally imposed capital requirements throughout the year.

During the year the adverse conditions in the financial markets resulted in the regulatory capital of an insurance subsidiary of the group not always exceeding its ICG, although it remained above the regulatory minimum at all times.

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 32(b) part (iv).

5 Segment information

(a) Primary reporting format - business segments

At 31 December 2008, 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.

Ecclesiastical Insurance Office plc

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5 Segment information (continued)

2008	General business £000	Long term business £000	Other £000	Group £000
Revenue				
Gross written premiums	384,693	18,915	-	403,608
Outward reinsurance premiums	(138,521)	(1,522)	-	(140,043)
Net change in provision for unearned premiums	(2,300)	-	-	(2,300)
Net earned premiums	243,872	17,393	-	261,265
Fee and commission income	33,659	932	4,173	38,764
Net investment return	(5,255)	(32,769)	(14,560)	(52,584)
Total revenue	272,276	(14,444)	(10,387)	247,445
Expenses				
Claims and change in insurance liabilities	(226,067)	(26,384)	-	(252,451)
Reinsurance recoveries	70,753	855	-	71,608
Fees, commissions and other acquisition costs	(69,110)	(2,888)	(2,584)	(74,582)
Other operating and administrative expenses	(56,271)	(2,954)	(7,420)	(66,645)
Change in provisions for investment contract liabilities	-	13,893	-	13,893
Change in net asset value attributable to unitholders	-	-	14,749	14,749
Total operating expenses	(280,695)	(17,478)	4,745	(293,428)
Operating loss	(8,419)	(31,922)	(5,642)	(45,983)
Finance costs	(222)	(251)	13	(460)
Transfers from the unallocated divisible surplus	-	23,962	-	23,962
Loss before tax	(8,641)	(8,211)	(5,629)	(22,481)
Tax credit	3,128	3,280	680	7,088
Loss attributable to equity holders of the parent	(5,513)	(4,931)	(4,949)	(15,393)
Included in other operating and administrative expenses are:				
Depreciation	2,109	10	40	2,159
Amortisation	1,149	78	467	1,694
Segment assets				
Reinsurers' share of contract provisions	196,627	2,294	-	198,921
Deferred acquisition costs	32,687	1,361	-	34,048
Other assets	899,774	306,909	90,532	1,297,215
Total assets	1,129,088	310,564	90,532	1,530,184
Segment liabilities				
Insurance contract provisions	719,781	236,365	-	956,146
Investment contract liabilities	-	40,943	-	40,943
Unallocated divisible surplus	-	15,874	-	15,874
Other liabilities	108,137	17,382	49,392	174,911
Total liabilities	827,918	310,564	49,392	1,187,874
Capital expenditure	5,074	-	59	5,133

Ecclesiastical Insurance Office plc

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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/(loss)	39,696	(2,453)	924	38,167
Finance costs	(153)	(162)	(517)	(832)
Transfers to the unallocated divisible surplus	-	(1,731)	-	(1,731)
Profit/(loss) before tax	39,543	(4,346)	407	35,604
Tax expense	(9,742)	(451)	845	(9,348)
Profit/(loss) 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

Notes to the Financial Statements

5 Segment information (continued)

(b) Secondary reporting format – geographical segments

The group operates in the following geographical areas:	2008	2007
	£000	£000
Gross written premiums		
UK	**311,534**	311,463
Australia and New Zealand	**65,058**	55,287
Canada	**17,447**	14,977
Other overseas	**9,569**	5,188
	403,608	386,915
Total assets		
UK	**1,247,388**	1,326,202
Australia and New Zealand	**172,155**	144,301
Canada	**70,173**	60,813
Other overseas	**40,468**	24,668
	1,530,184	1,555,984
Capital expenditure		
UK	**4,557**	2,392
Australia and New Zealand	**434**	336
Canada	**142**	56
Other overseas	**-**	-
	5,133	2,784

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.

Notes to the Financial Statements

6 Net insurance premium revenue

	General business £000	Long term business £000	Total £000
For the year ended 31 December 2008:			
Gross premiums written	384,693	18,915	403,608
Outward reinsurance premiums	(138,521)	(1,522)	(140,043)
Net premiums written	246,172	17,393	263,565
Change in the gross provision for unearned premiums	(5,852)	-	(5,852)
Change in the provision for unearned premiums, reinsurers' share	3,552	-	3,552
Change in the net provision for unearned premiums	(2,300)	-	(2,300)
Earned premiums, net of reinsurance	243,872	17,393	261,265
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

7 Fee and commission income

	2008 £000	2007 £000
General business reinsurance commissions and profit commission	33,659	36,460
Long term business reinsurance commissions and profit commission	932	1,239
Other fee and commission income	4,173	291
	38,764	37,990

8 Net investment return

	2008 £000	2007 £000
Income from financial assets at fair value through the income statement:		
- equity income	16,440	13,455
- debt income	30,559	25,577
Income from financial assets not at fair value through the income statement:		
- interest income on mortgages and other loans	2,341	2,868
- cash and cash equivalents income	17,100	12,731
- other income received	2,010	1,501
Other income:		
- rental income	2,130	2,189
Investment income	70,580	58,321
Fair value movements on financial instruments at fair value through the income statement	(114,167)	16,097
Fair value movements on investment property	(8,997)	(5,022)
Net investment return	(52,584)	69,396

8 Net investment return (continued)
Included within cash and cash equivalents income are exchange gains of £10,641,000 (2007: £2,518,000 gains).

Included within fair value movements on financial instruments at fair value through the income statement are £1,296,000 losses (2007: £310,000 gains) in respect of derivatives 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 2008:			
Gross claims paid	**209,027**	**33,425**	**242,452**
Gross change in the provision for claims	**17,040**	**(455)**	**16,585**
Gross change in long term business provisions	**-**	**(6,586)**	**(6,586)**
Claims and change in insurance liabilities	**226,067**	**26,384**	**252,451**
Reinsurers' share of claims paid	**(74,156)**	**(911)**	**(75,067)**
Reinsurers' share of change in the provision for claims	**3,403**	**18**	**3,421**
Reinsurers' share of change in long term business provisions	**-**	**38**	**38**
Reinsurance recoveries	**(70,753)**	**(855)**	**(71,608)**
Claims and change in insurance liabilities, net of reinsurance	**155,314**	**25,529**	**180,843**
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

10 Fees, commissions and other acquisition costs	**2008 £000**	2007 £000
Fees paid	**338**	332
Commission paid	**50,166**	48,390
Change in deferred acquisition costs	**(1,300)**	(1,461)
Other acquisition costs	**25,378**	23,302
	74,582	70,563

11 Operating (loss)/profit

	2008 £000	2007 £000
Operating (loss)/profit has been arrived at after (crediting)/charging:		
Net foreign exchange gains	**(10,641)**	(2,518)
Depreciation of property, plant and equipment	**2,159**	1,975
Amortisation of intangible assets	**1,694**	1,250
Decrease in fair value of investment property	**8,997**	5,022
Employee benefits expense	**48,109**	47,270
Operating lease rentals	**2,643**	2,605

12 Auditors' remuneration

	2008 £000	2007 £000
Fees payable to the company's auditor for the audit of the company's annual accounts	**218**	203
Fees payable to the company's auditor and its associates for other services:		
The audit of the company's subsidiaries, pursuant to legislation	**242**	226
	460	429
Other services pursuant to legislation	**175**	182
Tax services	**33**	29
Corporate finance services	**16**	235
All other services	**36**	39
Total auditors' remuneration	**720**	914

Other services pursuant to legislation represents FSA and other regulatory audit work.

13 Employee information

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

	2008			2007		
	General business No.	**Long term business No.**	**Other No.**	General business No.	Long term business No.	Other No.
Group						
United Kingdom	**777**	**31**	**105**	830	52	19
Australia and New Zealand	**156**	**-**	**-**	132	-	-
Canada	**58**	**-**	**-**	55	-	-
Republic of Ireland	**22**	**-**	**-**	16	-	-
	1,013	**31**	**105**	1,033	52	19
Parent						
United Kingdom	**703**	**31**	**44**	757	52	4
Canada	**58**	**-**	**-**	55	-	-
Republic of Ireland	**22**	**-**	**-**	16	-	-
	783	**31**	**44**	828	52	4

13 Employee information (continued)

	2008 Group £000	2008 Parent £000	2007 Group £000	2007 Parent £000
Wages and salaries	45,724	36,352	37,015	30,689
Social security costs	3,333	2,923	2,925	2,622
Pension costs - defined contribution plans	1,331	612	884	399
Pension costs - defined benefit plans	4,062	3,814	3,372	3,120
Other post-employment benefits	(6,341)	(6,341)	3,074	3,074
	48,109	37,360	47,270	39,904

The above figures include termination benefits of £3,757,000 for both group and parent (2007: £923,000 for group and £830,000 for parent).

14 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:

	2008 £000	2007 £000
Salaries and other short-term employee benefits	1,204	1,123
Post-employment benefits	82	44
	1,286	1,167

Post-employment benefits includes £50,050 (2007: £30,700) in respect of contributions to a defined contribution scheme.

Two directors (2007: two) who were employed by Ecclesiastical Insurance Office plc, were members of the group's defined benefit pension scheme during the year. One director (2007: one) was a member of the group's defined contribution scheme during the year.

		2008 £000	2007 £000
Highest paid director	- emoluments	324	325
	- money purchase pension contributions	50	-
	- accrued pension benefit	-	112
	- accrued lump sum entitlement	-	337
Chairman's fees		68	68

15 Finance costs

	2008 £000	2007 £000
Interest expense:		
- finance leases	164	159
- other interest paid	296	673
	460	832

16 Tax (credit)/expense

		2008 £000	2007 £000
Current tax	- current year	**7,218**	11,591
	- prior years	**(213)**	418
Deferred tax	- temporary differences	**(14,150)**	152
	- prior years	**57**	-
	- reduction in tax rate	**-**	(2,813)
Tax (credit)/expense		**(7,088)**	9,348

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

	2008 £000	2007 £000
(Loss)/profit before tax	**(22,481)**	35,604
Tax calculated at the UK standard rate of tax of 28.5% (2007: 30%)	**(6,407)**	10,681
Factors affecting (credit)/charge for the year:		
Expenses not deductible for tax purposes	**285**	299
Non-taxable franked investment income	**(1,242)**	(1,327)
Life insurance and other tax paid at non-standard rates	**326**	1,745
Tax losses for which no deferred income tax asset was recognised	**(201)**	(24)
Impact of reduction in deferred tax rate	**-**	(2,813)
Other items	**307**	369
Adjustments to tax charge in respect of prior periods	**(156)**	418
Tax (credit)/expense	**(7,088)**	9,348

A deferred tax charge on fair value movements on owner occupied property of £20,000 (2007: £16,000 credit) and tax relief on charitable grants of £2,055,000 (2007: £3,810,000) are taken directly to equity.

The UK standard rate of corporation tax changed to 28% from 30% with effect from 1 April 2008. Deferred tax has been provided at the rate of 28% (2007: 28%). Current tax is provided for at the blended standard rate of 28.5% (2007: 30%).

17 Appropriations

	2008 £000	2007 £000
Amounts recognised as distributions to equity holders in the period:		
Dividends		
Interim dividend on Ordinary shares of £nil (2007: 0.392p per share)	**-**	550
Non-Cumulative Irredeemable Preference share dividend	**5,731**	5,731
	5,731	6,281
Charitable grants		
Gross charitable grants to the ultimate parent company, Allchurches Trust Limited	**7,000**	12,700
Tax relief	**(2,055)**	(3,810)
Net appropriation for the year	**4,945**	8,890

18 Acquisition of subsidiary

On 1 April 2008, the group acquired 100% of the issued ordinary share capital of South Essex Insurance Holdings Limited, holding company of South Essex Insurance Brokers Limited, an insurance brokerage business. Details of the acquisition are as follows:

Purchase consideration	£000
- cash paid	21,695
- directly attributable costs	1,156
- deferred consideration	2,200
Total purchase consideration	**25,051**
Fair value of net assets acquired	**(8,166)**
Goodwill	**16,885**

The assets and liabilities arising from the acquisition are as follows:	Fair value	Acquiree's carrying amount
	£000	£000
Intangible assets	3,826	-
Property, plant and equipment	316	316
Financial investments	4	4
Cash and cash equivalents	2,070	2,070
Other assets	5,744	5,744
Other liabilities	(3,794)	(3,794)
Net assets acquired	**8,166**	**4,340**

Purchase consideration settled in cash	22,851
Cash and cash equivalents in subsidiary acquired	(2,070)
Cash outflow on acquisition	**20,781**

The goodwill arising on the acquisition is attributable to intangibles not qualifying for separate recognition, such as brand name, workforce, synergies and new business opportunities.

South Essex Insurance Brokers Limited contributed £4,239,000 to group revenues and £913,000 of profit to the group's result before tax for the period from the date of acquisition to 31 December 2008. If the acquisition of South Essex Insurance Brokers Limited business had been completed on 1 January 2008, group revenues for the year would have been £248,777,000 and group loss attributable to equity holders of the parent would have been £15,191,000.

19 Goodwill and other intangible assets

	Goodwill	Computer software	Other intangible assets	Total
Group	£000	£000	£000	£000
Cost:				
At 1 January 2008	2,097	18,729	-	20,826
Additions	-	2,392	-	2,392
Acquisition of subsidiaries	16,885	144	3,826	20,855
Exchange differences	-	203	-	203
Disposals	-	(248)	-	(248)
At 31 December 2008	18,982	21,220	3,826	44,028
Amortisation:				
At 1 January 2008	-	16,019	-	16,019
Provided in the year	-	1,249	445	1,694
Exchange differences	-	144	-	144
Disposals	-	(248)	-	(248)
At 31 December 2008	-	17,164	445	17,609
Net book value at 31 December 2008	18,982	4,056	3,381	26,419
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

£16,885,000 of goodwill relates to the acquisition of South Essex Insurance Holdings Limited. The recoverable amount, determined on a value in use basis indicates no impairment in the year. The calculation uses discounted cash flow projections based on management approved business plans covering a five year period, with forecast cash flows in the fifth year continuing thereafter in perpetuity.

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

Other intangible assets consist of acquired customer and distribution relationships, which have an overall remaining useful life of 6 years on a weighted average basis.

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

19 Goodwill and other intangible assets (continued)	**Computer software**
Parent	**£000**
Cost:	
At 1 January 2008	**16,108**
Additions	**2,158**
Exchange differences	**85**
Disposals	**(248)**
At 31 December 2008	**18,103**
Amortisation:	
At 1 January 2008	**13,921**
Provided in the year	**854**
Exchange differences	**46**
Disposals	**(248)**
At 31 December 2008	**14,573**
Net book value at 31 December 2008	**3,530**
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

20 Deferred acquisition costs	**2008**		2007	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
At 1 January	**31,751**	**23,012**	29,477	22,048
Increase in the period	**31,644**	**23,596**	29,551	22,469
Release in the period	**(30,344)**	**(22,814)**	(28,090)	(21,913)
Exchange differences	**997**	**492**	813	408
At 31 December	**34,048**	**24,286**	31,751	23,012
Current	**32,856**	**24,237**	30,136	22,768
Non-current	**1,192**	**49**	1,615	244

21 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 Trustee of the Ecclesiastical Insurance Office plc Staff Retirement Benefit Fund. An independent qualified actuary appointed by the Trustee is responsible for undertaking triennial valuations which assess the financial position of the scheme. Pension costs for the scheme are determined by the Trustee, having considered the advice of the actuary and having consulted with the Employer. The most recent triennial valuation was at 31 December 2007. Ansvar Insurance Company Limited 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. These schemes are registered with the Pensions Regulator. Pension liabilities for the Republic of Ireland branch are dealt with by payment to an Irish life office. Actuarial valuations have been reviewed and updated by the actuaries at 31 December 2008 for IAS 19 purposes. All schemes are now closed to new entrants.

The group also operates a number of defined contribution pension schemes, for which contributions by the group are disclosed in note 13.

	2008		2007	
	Group	**Parent**	Group	Parent
The amounts recognised in the balance sheet are determined as follows:	**£000**	**£000**	£000	£000
Present value of funded obligations	**(143,282)**	**(137,295)**	(164,458)	(157,938)
Fair value of plan assets	**170,374**	**163,398**	189,880	182,783
	27,092	**26,103**	25,422	24,845
Unrecognised actuarial gains	**(2,118)**	**(3,018)**	(4,146)	(4,828)
Net asset in the balance sheet	**24,974**	**23,085**	21,276	20,017
Movements in the net asset recognised in the balance sheet are as follows:				
At 1 January	**21,276**	**20,017**	18,281	17,219
Exchange differences	**171**	**171**	48	48
Total expense charged in the income statement	**(4,062)**	**(3,814)**	(3,372)	(3,120)
Contributions paid	**7,589**	**6,711**	6,319	5,870
At 31 December	**24,974**	**23,085**	21,276	20,017

21 Pension asset and retirement benefit obligations (continued)

	2008		2007	
	Group	**Parent**	Group	Parent
The amounts recognised in the income statement are as follows:	**£000**	**£000**	£000	£000
Current service cost	**7,134**	**6,724**	7,364	6,952
Interest cost	**9,402**	**9,030**	7,590	7,302
Expected return on plan assets	**(12,920)**	**(12,432)**	(11,622)	(11,174)
Net actuarial gains recognised during the year	**(68)**	**(9)**	-	-
Gain on settlement	**(825)**	**(825)**	-	-
Past service cost	**1,339**	**1,326**	40	40
Total included in employee benefits expense	**4,062**	**3,814**	3,372	3,120

The actual return on pension plan assets was a loss of £22,900,000 (2007: £15,093,000 gain).

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

	2008	2007
Discount rate	**6.50%**	5.80%
Inflation	**3.20%**	3.50%
Expected return on plan assets	**6.79%**	6.73%
Future salary increases	**4.70%**	5.00%
Future pension increases	**3.20%**	3.50%

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.

Mortality rate

The average life expectancy in years of a pensioner retiring at age 65, at the balance sheet date, is as follows:

	2008	2007
Male	**23.6**	22.7
Female	**26.1**	25.3

The average life expectancy in years of a pensioner retiring at age 65, 20 years after the balance sheet date, is as follows:

	2008	2007
Male	**25.7**	25.7
Female	**28.2**	28.2

Plan assets are as follows:	2008		2007	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
Equities	**65,809**	**62,981**	105,682	101,370
Bonds	**66,747**	**63,394**	49,859	47,784
Cash	**28,247**	**27,452**	21,893	21,183
Other	**9,571**	**9,571**	12,446	12,446
	170,374	**163,398**	189,880	182,783

21 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:

	2008		2007	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
Scheme assets				
As at 1 January	**189,880**	**182,783**	172,365	165,823
Pension benefits paid and payable	**(4,766)**	**(4,558)**	(4,083)	(3,867)
Contributions paid	**7,589**	**6,711**	6,319	5,870
Expected return on scheme assets	**12,920**	**12,432**	11,622	11,174
Actuarial (losses)/gains	**(35,820)**	**(34,541)**	3,471	3,597
Exchange differences	**571**	**571**	186	186
As at 31 December	**170,374**	**163,398**	189,880	182,783
Defined benefit obligation				
As at 1 January	**164,458**	**157,938**	151,433	145,686
Current service cost	**7,134**	**6,724**	7,364	6,952
Past service cost	**1,339**	**1,326**	40	40
Gain on settlement	**(825)**	**(825)**	-	-
Pension benefits paid and payable	**(4,766)**	**(4,558)**	(4,083)	(3,867)
Interest cost	**9,402**	**9,030**	7,590	7,302
Actuarial (gains)/losses	**(34,142)**	**(33,022)**	1,921	1,632
Exchange differences	**682**	**682**	193	193
As at 31 December	**143,282**	**137,295**	164,458	157,938

History of group experience gains and losses	2008	2007	2006	2005	2004
	£000	£000	£000	£000	£000
Present value of defined benefit obligations	(143,282)	(164,458)	(151,433)	(146,258)	(111,400)
Fair value of scheme assets	170,374	189,880	172,365	148,166	120,770
Surplus	27,092	25,422	20,932	1,908	9,370
Experience adjustments on scheme liabilities	3,417	7,379	(1,472)	(1,780)	3,470
Experience adjustments on scheme assets	(35,820)	3,471	11,171	14,233	5,496

The contribution expected to be paid by the group during the year ended 31 December 2009 is £7.0 million.

21 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:	**2008**	2007
	£000	£000
Present value of unfunded obligations and net obligations in the balance sheet	**5,021**	11,452
Movements in the net obligations recognised in the balance sheet are as follows:		
At 1 January	**11,452**	8,506
Total (credit)/expense in the income statement	**(6,341)**	3,074
Contributions paid	**(90)**	(128)
At 31 December	**5,021**	11,452
The amounts recognised in the income statement are as follows:		
Current service cost	**1,373**	993
Interest cost	**679**	434
Gain on settlement	**(4,519)**	-
Net actuarial (gains)/losses recognised during the year	**(3,874)**	1,647
Total (credit)/expense included in employee benefits expense	**(6,341)**	3,074

The main actuarial assumption is a long term increase in medical costs of 8.0% (2007: 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	61	(50)
Effect on the medical benefit obligation	806	(658)

22 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 2008	4,356	2,602	5,427	5,577	17,962
Additions	-	703	809	1,229	2,741
Acquisition of subsidiaries	-	57	62	52	171
Exchange differences	34	1	159	132	326
Disposals	-	(638)	(144)	(355)	(1,137)
Revaluation	(58)	-	-	-	(58)
At 31 December 2008	4,332	2,725	6,313	6,635	20,005
Depreciation:					
At 1 January 2008	-	897	3,288	3,255	7,440
Provided in the year	-	450	650	1,059	2,159
Exchange differences	-	-	72	89	161
Disposals	-	(389)	(115)	(345)	(849)
At 31 December 2008	-	958	3,895	4,058	8,911
Net book value at 31 December 2008	4,332	1,767	2,418	2,577	11,094
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

Certain properties, held as investment properties by subsidiary undertakings but occupied by the group, were revalued at 31 December 2008. 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 £3,005,000 (2007: £2,994,000).

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

Included within net book value of motor vehicles is £1,541,000 (2007: £1,514,000) in respect of assets held under finance leases.

22 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 2008	**1,870**	**2,186**	**3,573**	**3,682**	**11,311**
Additions	-	603	579	1,063	2,245
Exchange differences	-	-	59	16	75
Disposals	-	(465)	(78)	(239)	(782)
At 31 December 2008	**1,870**	**2,324**	**4,133**	**4,522**	**12,849**
Depreciation:					
At 1 January 2008	-	727	2,192	1,864	4,783
Provided in the year	-	362	463	850	1,675
Exchange differences	-	-	26	9	35
Disposals	-	(286)	(78)	(239)	(603)
At 31 December 2008	-	**803**	**2,603**	**2,484**	**5,890**
Net book value at 31 December 2008	**1,870**	**1,521**	**1,530**	**2,038**	**6,959**
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

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 (2007: £1,601,000).

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

Included within net book value of motor vehicles is £1,517,000 (2007: £1,454,000) in respect of assets held under finance leases.

23 Investment property	2008		2007	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
Net book value at 1 January	**33,558**	**28,432**	36,207	31,251
Additions	**-**	**-**	2,373	1,186
Fair value losses	**(8,997)**	**(7,127)**	(5,022)	(4,005)
Net book value at 31 December	**24,561**	**21,305**	33,558	28,432

The group's investment properties were last revalued at 31 December 2008 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 £2,130,000 (2007: £2,189,000) and is included in net investment return. Other operating and administrative expenses include £263,000 (2007: £245,000) relating to investment property. Rental income in respect of parent investment properties amounted to £1,793,000 (2007: £1,844,000) and expenses were £256,000 (2007: £226,000).

24 Financial investments	2008		2007	
Financial investments summarised by measurement category are as follows:	**Group**	**Parent**	Group	Parent
	£000	**£000**	£000	£000
Financial investments at fair value through the income statement				
Equity securities:				
- listed	**267,670**	**144,258**	395,928	188,969
- unlisted	**19,403**	**19,060**	19,176	18,877
Debt securities:				
- government bonds	**443,617**	**254,078**	334,155	184,520
- listed	**194,129**	**68,203**	187,703	71,150
- unlisted	**566**	**283**	604	302
	925,385	**485,882**	937,566	463,818
Loans and receivables				
Loans secured by mortgages	**28,942**	**113**	35,106	189
Other loans	**98**	**17**	120	21
	29,040	**130**	35,226	210
Investments in group undertakings				
Shares in subsidiary undertakings	**-**	**48,629**	-	23,578
	-	**48,629**	-	23,578
Total financial investments	**954,425**	**534,641**	972,792	487,606

All investments in group undertakings are unlisted.

Included in equity securities of the group are options with a fair value of £4,081,000 (2007: £1,685,000), 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. An analysis of financial investments by IAS 39 measurement category is given in note 4.

25 Derivative financial instruments

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

Equity/Index contracts	**2008**			2007		
	Contract/ notional amount	**Fair value asset**	**Fair value liability**	Contract/ notional amount	Fair value asset	Fair value liability
Group	**£000**	**£000**	**£000**	£000	£000	£000
Futures	**62,656**	**-**	**(999)**	-	-	-
Options	**26,000**	**4,081**	**-**	26,000	1,685	-
Totals at 31 December	**88,656**	**4,081**	**(999)**	26,000	1,685	-
Parent						
Futures	**43,218**	**-**	**(682)**	-	-	-
Totals at 31 December	**43,218**	**-**	**(682)**	-	-	-

The notional amounts above reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of the derivative transaction. They do not reflect current market values of the open positions.

Derivative fair value assets are recognised within financial investments (note 24) and derivative fair value liabilities are recognised within other liabilities (note 39).

The contractual undiscounted cash flows in relation to non-hedge derivative liabilities all mature within one year.

Amounts pledged as collateral in respect of derivative contracts are disclosed in note 27.

26 Other assets	**2008**		2007	
	Group	**Parent**	Group	Parent
Receivables arising from insurance and reinsurance contracts:	**£000**	**£000**	£000	£000
- due from contract holders	**23,281**	**19,791**	19,886	16,471
- due from agents, brokers and intermediaries	**48,696**	**25,769**	49,047	28,461
- due from reinsurers	**9,890**	**9,791**	13,217	13,201
Other receivables:				
- accrued interest and rent	**8,330**	**4,549**	8,509	4,221
- other prepayments and accrued income	**4,906**	**4,106**	3,770	3,354
- amounts owed by related parties	**1,354**	**30,615**	7,297	30,557
- other debtors	**10,149**	**1,002**	3,523	900
	106,606	**95,623**	105,249	97,165

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.

26 Other assets (continued)

The group has recognised a charge of £705,000 (2007: charge of £399,000) 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 £535,000 (2007: charge of £288,000).

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	2008		2007	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
Balance at beginning of year	**3,324**	**3,159**	2,948	2,808
Movement in the year	**576**	**498**	376	351
Balance at end of year	**3,900**	**3,657**	3,324	3,159

The allowance for doubtful debts includes a provision of £206,000 (2007: £440,000) for the group and £71,000 (2007: £344,000) 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 £4,342,000 (2007: £4,731,000) overdue but not impaired, of which £3,378,000 (2007: £3,437,000) is not more than three months overdue at the reporting date. Included within trade receivables of the company is £3,695,000 (2007: £3,688,000) overdue but not impaired, of which £2,938,000 (2007: £2,824,000) is not more than three months overdue at the reporting date.

27 Cash and cash equivalents	2008		2007	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
Cash at bank and in hand	**75,743**	**31,237**	62,657	16,288
Short term bank deposits	**70,266**	**46,228**	118,346	91,492
	146,009	**77,465**	181,003	107,780

Included within short term bank deposits are cash deposits of £9,475,000 (2007: £nil) for the group, and £6,527,000 (2007: £nil) for the parent, pledged as collateral by way of cash margins on open derivative contracts and cash to cover derivative liabilities. On closure of these contracts any derivative liability position is settled, and collateral pledged on the margin ceases.

28 Called up share capital

	Authorised		Issued, allotted and fully paid	
	2008	2007	**2008**	2007
	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:	**2008**	2007
	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 and 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.

29 Share premium account	**2008**	2007
	£000	£000
At 1 January and 31 December	**4,632**	4,632

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Notes to the Financial Statements

30 Retained earnings and other reserves

	Equalisation reserve £000	Revaluation reserve £000	Translation reserve £000	Retained earnings £000	Total £000
Group					
At 1 January 2007	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 17)	-	-	-	(6,281)	(6,281)
At 31 December 2007	21,285	1,430	5,430	248,797	276,942
Gross fair value gains on property	-	(8)	-	-	(8)
Tax on fair value gains on property	-	(20)	-	-	(20)
Reserve transfers	(3,273)	-	-	3,273	-
Currency translation differences	-	-	6,396	-	6,396
Loss for the period	-	-	-	(15,393)	(15,393)
Group tax relief in excess of standard rate	-	-	-	(40)	(40)
Net charitable grant to ultimate parent undertaking	-	-	-	(4,945)	(4,945)
Dividends paid (see note 17)	-	-	-	(5,731)	(5,731)
At 31 December 2008	18,012	1,402	11,826	225,961	257,201

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

30 Retained earnings and other reserves (continued)

	Equalisation reserve £000	Revaluation reserve £000	Translation reserve £000	Retained earnings £000	Total £000
Parent					
At 1 January 2007	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 17)	-	-	-	(6,281)	(6,281)
At 31 December 2007	20,682	570	3,636	186,472	211,360
Reserve transfers	(3,450)	-	-	3,450	-
Currency translation differences	-	-	3,426	-	3,426
Loss for the period	-	-	-	(11,565)	(11,565)
Group tax relief in excess of standard rate	-	-	-	(1,371)	(1,371)
Net charitable grant to ultimate parent undertaking	-	-	-	(4,945)	(4,945)
Dividends paid (see note 17)	-	-	-	(5,731)	(5,731)
At 31 December 2008	17,232	570	7,062	166,310	191,174

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 and parent's foreign operations.

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

31 Statement of changes in equity	2008		2007	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
Opening shareholders' equity	**362,051**	**296,469**	345,009	280,924
Total recognised income and expense for the year	**(9,025)**	**(8,139)**	32,213	30,716
Dividends paid	**(5,731)**	**(5,731)**	(6,281)	(6,281)
Net charitable grant to ultimate parent undertaking	**(4,945)**	**(4,945)**	(8,890)	(8,890)
Group tax relief in excess of standard rate	**(40)**	**(1,371)**	-	-
Closing shareholders' equity	**342,310**	**276,283**	362,051	296,469

32 Insurance liabilities and reinsurance assets	2008		2007	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
Gross				
Claims outstanding	**531,931**	**430,930**	489,770	401,106
Unearned premiums	**190,570**	**140,414**	179,468	135,779
Long term business provision	**233,645**	**-**	240,231	-
Total gross insurance liabilities	**956,146**	**571,344**	909,469	536,885
Recoverable from reinsurers				
Claims outstanding	**139,482**	**111,342**	134,915	109,963
Unearned premiums	**57,209**	**40,307**	52,076	37,912
Long term business provision	**2,230**	**-**	2,268	-
Total reinsurers' share of insurance liabilities	**198,921**	**151,649**	189,259	147,875
Net				
Claims outstanding	**392,449**	**319,588**	354,855	291,143
Unearned premiums	**133,361**	**100,107**	127,392	97,867
Long term business provision	**231,415**	**-**	237,963	-
Total net insurance liabilities	**757,225**	**419,695**	720,210	389,010
Gross insurance liabilities				
Current	**373,744**	**278,041**	360,304	270,797
Non-current	**582,402**	**293,303**	549,165	266,088
Reinsurance assets				
Current	**128,618**	**95,858**	99,209	74,725
Non-current	**70,303**	**55,791**	90,050	73,150

32 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.

32 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:

		2008		2007	
		Gross	**Net**	Gross	Net
		£000	**£000**	£000	£000
Liability	- UK	**17,600**	**15,500**	17,200	14,900
	- Overseas	**7,900**	**6,600**	6,600	5,500
Property	- UK	**7,900**	**4,800**	10,300	6,000
	- Overseas	**11,000**	**5,200**	6,200	2,800
Motor	- UK	**3,400**	**2,400**	3,200	2,300
	- Overseas	**300**	**200**	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.

	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**Total**
Group	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Estimate of ultimate claims:									
At end of year	32,882	34,480	34,483	35,349	39,528	41,007	46,235	51,795	
One year later	32,098	29,269	30,253	34,867	32,780	40,976	43,107		
Two years later	27,680	26,140	29,791	29,447	31,287	35,783			
Three years later	26,476	24,934	28,897	28,486	28,641				
Four years later	24,423	21,787	26,142	27,840					
Five years later	23,011	20,393	25,018						
Six years later	22,562	21,103							
Seven years later	23,405								
Current estimate of ultimate claims	23,405	21,103	25,018	27,840	28,641	35,783	43,107	51,795	256,692
Cumulative payments to date	(19,924)	(16,367)	(17,812)	(15,327)	(10,974)	(7,028)	(3,912)	(852)	(92,196)
Outstanding liability	3,481	4,736	7,206	12,513	17,667	28,755	39,195	50,943	164,496
Liability in respect of earlier years									56,337
Total net liability (for liability classes) included in insurance liabilities in the balance sheet									220,833

	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**Total**
Parent	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Estimate of ultimate claims:									
At end of year	28,943	28,770	27,762	28,642	30,653	31,402	34,571	38,956	
One year later	27,267	23,766	24,478	27,939	25,136	30,348	32,999		
Two years later	23,587	21,553	24,394	23,170	23,820	27,656			
Three years later	23,152	20,914	24,521	22,861	22,217				
Four years later	21,418	18,645	22,231	22,647					
Five years later	20,574	17,731	20,594						
Six years later	20,082	18,205							
Seven years later	20,791								
Current estimate of ultimate claims	20,791	18,205	20,594	22,647	22,217	27,656	32,999	38,956	204,065
Cumulative payments to date	(17,689)	(14,215)	(15,678)	(13,496)	(9,292)	(6,147)	(3,211)	(613)	(80,341)
Outstanding liability	3,102	3,990	4,916	9,151	12,925	21,509	29,788	38,343	123,724
Liability in respect of earlier years									44,357
Total net liability (for liability classes) included in insurance liabilities in the balance sheet									168,081

32 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:

	2008		2007	
	With-profit	**Non-profit**	With-profit	Non-profit
UK and overseas government bonds: non-linked	**2.11%**	**2.79%**	3.58%	3.62%
UK government: index-linked	**n/a**	**1.29%**	n/a	1.17%
Corporate debt instruments: non-linked	**4.16%**	**4.15%**	4.15%	4.06%
Corporate debt instruments: index linked	**n/a**	**1.36%**	n/a	0.78%
Equities and collective investment vehicles	**5.30%**	**5.04%**	4.83%	1.70%
Loans secured by mortgages	**n/a**	**6.03%**	n/a	6.36%
Cash and deposits	**0.98%**	**1.31%**	2.50%	4.25%
Land & buildings	**4.48%**	**4.48%**	5.11%	5.11%

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 £11.00 per annum (2007: £10.50 per annum). The unit renewal expense assumption for third-party administered term assurance business is £11.00 per annum (2007: £10.50 per annum). The base unit renewal expense assumption for other business reduced to £66.00 per annum (2007: £68.00 per annum). The unit renewal expense assumption for overseas term assurance business is €26.67 (2007: n/a). 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 3.6% per annum (2007: 4.5%).

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 £3.7 million (2007: £0.3 million increase).

Longevity assumptions are unchanged (2007: changes to assumptions caused a £2.3 million increase in liabilities).

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 £0.1 million reduction (2007: £0.2 million increase). For with-profit business the effect was a £0.6 million reduction (2007: £3.8 million increase, partially offset by the release of a £2.2 million additional expense reserve).

32 Insurance liabilities and reinsurance assets (continued)

(iii) Sensitivity analysis

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

	Change in variable	Potential increase/ (decrease) in the result 2008 £000	2007 £000
Variable			
Deterioration in annuitant mortality	-10%	**3,200**	3,000
Improvement in annuitant mortality	+10%	**(3,700)**	(3,600)
Increase in fixed interest/cash yields	+1%pa	**(1,400)**	800
Decrease in fixed interest/cash yields	-1%pa	**700**	(1,100)
Decrease in equity and property values	-5%	**(100)**	(500)
Worsening of base renewal expense level	+10%	**(1,800)**	(5,100)
Improvement in base renewal expense level	-10%	**1,800**	2,100

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
2008						
Shareholders' equity	-	**3,578**	**27,442**	**31,020**	**311,290**	**342,310**
Unallocated divisible surplus	**15,874**	-	-	**15,874**	**(5,076)**	**10,798**
Adjustments to assets/liabilities	**(1,270)**	**361**	**(840)**	**(1,749)**	**(62,629)**	**(64,378)**
Adjustments to actuarial liabilities	-	**(5,575)**		**(5,575)**	-	**(5,575)**
Group contingent loans	-	**8,000**	-	**8,000**	**(8,000)**	-
Total available capital resources	**14,604**	**6,364**	**26,602**	**47,570**	**235,585**	**283,155**
Policyholder liabilities						
- with-profit business	**105,322**	-	-	**105,322**		
- unit linked business	-	**37,542**	-	**37,542**		
- other investment business	-	**3,401**	-	**3,401**		
- other life insurance business	-	**126,093**	-	**126,093**		
Net actuarial liabilities on balance sheet	**105,322**	**167,036**	-	**272,358**		
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		

32 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 34. 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
2008				
Published capital resources as at 31 December 2007	38,313	4,385	30,335	73,033
Effect of new business	491	(1,877)	-	(1,386)
Variance between actual and expected experience	(20,044)	(757)	-	(20,801)
Effect of changes to valuation interest rates	(2,232)	(5,852)	-	(8,084)
Effect of changes to unit renewal expense assumptions	(11)	816	-	805
Effect of changes to annuitant mortality assumptions	29	-	-	29
Effect of change to inflation assumption	19	1,633	-	1,652
Effect of lapse assumptions	-	(93)	-	(93)
Group contingent loans	-	8,000	-	8,000
Other movements	(1,961)	109	(3,733)	(5,585)
Capital resources as at 31 December 2008	14,604	6,364	26,602	47,570

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

32 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 2008	489,770	(134,915)	354,855
Cash (paid)/received for claims settled in the year	(242,452)	75,067	(167,385)
Change in liabilities/reinsurance assets:			
- arising from current year claims	283,409	(72,189)	211,220
- arising from prior year claims	(24,372)	543	(23,829)
Exchange differences	25,576	(7,988)	17,588
At 31 December 2008	531,931	(139,482)	392,449
Provision for unearned premiums			
At 1 January 2008	179,468	(52,076)	127,392
Increase in the period	185,294	(55,512)	129,782
Release in the period	(179,442)	51,960	(127,482)
Exchange differences	5,250	(1,581)	3,669
At 31 December 2008	190,570	(57,209)	133,361
Long term business provision			
At 1 January 2008	240,231	(2,268)	237,963
Effect of new business during the year	11,882	(1,522)	10,360
Effect of claims during the year	(29,216)	911	(28,305)
Changes in assumptions	(39)	-	(39)
Change in methodology	(748)	-	(748)
Other movements	11,535	649	12,184
At 31 December 2008	233,645	(2,230)	231,415
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

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

32 Insurance liabilities and reinsurance assets (continued)

Parent	Gross £000	Reinsurance £000	Net £000
Claims outstanding			
At 1 January 2008	**401,106**	**(109,963)**	**291,143**
Cash (paid)/received for claims settled in the year	**(164,027)**	**53,213**	**(110,814)**
Change in liabilities/reinsurance assets:			
- arising from current year claims	**191,295**	**(47,384)**	**143,911**
- arising from prior year claims	**(16,052)**	**(1,276)**	**(17,328)**
Exchange differences	**18,608**	**(5,932)**	**12,676**
At 31 December 2008	**430,930**	**(111,342)**	**319,588**
Provision for unearned premiums			
At 1 January 2008	**135,779**	**(37,912)**	**97,867**
Increase in the period	**137,365**	**(39,477)**	**97,888**
Release in the period	**(134,659)**	**37,406**	**(97,253)**
Exchange differences	**1,929**	**(324)**	**1,605**
At 31 December 2008	**140,414**	**(40,307)**	**100,107**
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

33 Investment contract liabilities

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

	2008 £000	2007 £000
Current	**1,917**	2,210
Non-current	**39,026**	52,709
Total	**40,943**	54,919

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 (2007: £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 an increase of £483,000 (2007: a reduction of £300,000).

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.

34 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:

	2008 £000	2007 £000
At 1 January	**39,836**	38,105
Net earned premiums	**5,371**	7,533
Fee and commission income	**103**	103
Investment income	**8,260**	7,424
Fair value (losses)/gains	**(28,121)**	2,403
Claims	**(20,829)**	(20,355)
Change in insurance liability:		
- reversionary bonuses allocated	**(1,725)**	(2,774)
- other	**11,158**	9,171
Reinsurance recoveries	**-**	53
Fees, commissions and other acquisition costs	**(269)**	(260)
Other operating and administrative expenses	**(1,060)**	(1,156)
Finance costs	**(60)**	(102)
Tax credit/(expense)	**3,210**	(309)
At 31 December	**15,874**	39,836

In 2008, profits allocated by the with-profit fund in the form of discretionary benefits amounted to £5,553,000 (2007: £5,321,000).

35 Finance lease obligations

	2008		2007	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
Minimum lease obligations payable:				
Within 1 year	**752**	**730**	759	707
Within 2 to 5 years	**1,062**	**1,062**	991	977
	1,814	**1,792**	1,750	1,684
Less future finance charges	**(228)**	**(227)**	(143)	(142)
Present value of finance lease obligations	**1,586**	**1,565**	1,607	1,542
The present value of minimum lease obligations payable:				
Within 1 year	**610**	**589**	659	608
Within 2 to 5 years	**976**	**976**	948	934
	1,586	**1,565**	1,607	1,542

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.

36 Provisions for other liabilities and charges

	Regulatory levies	**Restructuring and other provisions**	**Total**
	£000	**£000**	**£000**
Group			
At 1 January 2008	6,593	1,614	8,207
Additional provisions	6,465	277	6,742
Unused amounts reversed	-	(110)	(110)
Used during year	(660)	(603)	(1,263)
Exchange differences	-	13	13
At 31 December 2008	12,398	1,191	13,589
Current	12,398	190	12,588
Non-current	-	1,001	1,001
Parent			
At 1 January 2008	5,809	1,493	7,302
Additional provisions	5,552	237	5,789
Unused amounts reversed	-	(110)	(110)
Used during year	(660)	(603)	(1,263)
At 31 December 2008	10,701	1,017	11,718
Current	10,701	190	10,891
Non-current	-	827	827

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. Following changes in the funding arrangements, insurers may now also be required to contribute to levies arising from compensation paid to retail deposit holders. This change plus the impact of the banking crisis in 2008 has led to a change in management's view of the potential levies; this is reflected in the increased provision.

Restructuring and other provisions

The provision for restructuring and other costs relates mainly to onerous lease costs arising from the restructure of the group's UK operations.

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37 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 2007	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
(Credited)/charged to income	(14,884)	2,798	(917)	(1,090)	(14,093)
Credited to equity	-	-	-	(834)	(834)
Exchange differences	(30)	21	-	(217)	(226)
At 31 December 2008	25,035	5,480	5,043	(5,789)	29,769

	Unrealised gains on investments £000	Net retirement benefit assets £000	Equalisation reserve £000	Other differences £000	Total £000
Parent					
At 1 January 2007	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
(Credited)/charged to income	(11,508)	2,622	(966)	(113)	(9,965)
Credited to equity	-	-	-	(855)	(855)
Exchange differences	(6)	21	-	(64)	(49)
At 31 December 2008	21,195	4,951	4,825	(2,462)	28,509

37 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:

	2008		2007	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
Deferred tax liabilities	**32,358**	**29,166**	47,677	39,934
Deferred tax assets	**(2,589)**	**(657)**	(2,755)	(556)
	29,769	**28,509**	44,922	39,378

The group has unused tax losses of £28,640,000 (2007: £25,449,000) 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 £61,594,000 (2007: £49,334,000). 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.

38 Deferred income	2008		2007	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
Reinsurance commissions receivable	**17,651**	**12,764**	16,062	12,220
Investment contract fee income	**549**	**-**	600	-
Total	**18,200**	**12,764**	16,662	12,220
Current	**17,678**	**12,764**	16,092	12,220
Non-current	**522**	**-**	570	-

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.

39 Other liabilities	2008		2007	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
Creditors arising out of direct insurance operations	**2,407**	**787**	1,999	721
Creditors arising out of reinsurance operations	**14,699**	**9,957**	11,350	7,123
Derivative liabilities	**999**	**682**	-	-
Other creditors	**10,922**	**6,179**	7,973	4,929
Amounts owed to related parties	**3,238**	**3,905**	6,762	710
Accruals	**12,136**	**10,000**	5,223	4,106
	44,401	**31,510**	33,307	17,589

Derivative liabilities are in respect of equity futures contracts and are detailed in note 25.

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

40 Commitments

Capital commitments

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

	2008		2007	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
Property, plant and equipment	**49**	**49**	353	331

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:

	2008		2007	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
Within 1 year	**1,803**	**1,554**	2,087	1,749
Within 2 to 5 years	**4,797**	**4,114**	6,364	5,209
After 5 years	**7,185**	**6,667**	8,512	7,606
	13,785	**12,335**	16,963	14,564

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

	2008		2007	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
Within 1 year	**2,219**	**1,652**	2,284	1,856
Within 2 to 5 years	**7,697**	**6,239**	6,831	6,216
After 5 years	**5,150**	**5,150**	6,417	6,417
	15,066	**13,041**	15,532	14,489
Operating lease rentals charged to the income statement during the year.	**2,643**	**2,074**	2,605	2,137
Total future minimum sublease payments expected to be received under non-cancellable subleases.	**441**	**372**	-	-

41 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	**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%	-
South Essex Insurance Brokers Limited	Ordinary shares	-	100%
Incorporated and operating in Great Britain, engaged in retail of services:			
Ecclesiastical Risk Services 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.

42 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.

	Parent	Subsidiaries	Other related parties
2008	**£000**	**£000**	**£000**
Group			
Trading, investment and other income, including recharges	6,914	-	1,914
Trading, investment and other expenditure, including recharges	6,912	-	1,614
Amounts owed by related parties	-	-	1,354
Amounts owed to related parties	4	-	3,234
Parent			
Trading, investment and other income, including recharges	6,914	26,763	1,343
Trading, investment and other expenditure, including recharges	1	30,351	1,441
Amounts owed by related parties	-	29,327	1,288
Amounts owed to related parties	4	667	3,234
2007			
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	-

During the prior 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 £49,085,000 (2007: £46,733,000) and paid reinsurance protection, commission and claims amounting to £45,393,000 (2007: £36,449,000).

Parent investments in related party mutual funds of £90,633,000 (2007: £109,674,000) are included in listed equity securities in note 24 to the financial statements.

The loan agreements in place at 31 December 2007 for £6,750,000 from Ecclesiastical Insurance Office plc to Ecclesiastical Insurance Group plc and £6,750,000 from Ecclesiastical Insurance Group plc to Allchurches Mortgage Company Limited, a subsidiary of Ecclesiastical Insurance Office plc, were rewritten during the period. The loan agreement is now held between Ecclesiastical Insurance Office plc and Allchurches Mortgage Company Limited and the loan balance outstanding at 31 December 2008 was £5,350,000. This amendment has no effect on the performance of the group, but does remove the loan asset and loan liability from the consolidated balance sheet.

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 14.

Ecclesiastical Insurance Office plc

United Kingdom Regional Centres

Birmingham	Regional Director:	T. O'Reilly ACII
	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
Gloucester	Regional Director:	J. Harker MBA
	Office:	Fitzalan House, Park Road, Gloucester GL1 1LZ
	Tel:	01452 422226
Manchester	Regional Director:	P. Lee BA, ACII, MCIPD
	Office:	Lincoln House, 1 Brazennose Street, Manchester M2 5FJ
	Tel:	0161 832 2616

Ecclesiastical Insurance Office plc

International Branches

Canada	General Manager and Chief Agent:	S. J. Whyte MC Inst M, ACII
	Chief Office:	20 Eglinton Avenue West, Suite 2200, P.O. Box 2004, Toronto, Ontario M4R 1K8
	Manager: Atlantic Region	M. Thornhill BA, FCIP, CRM 1969 Upper Water Street, Suite 2106, Purdy's Wharf, Tower 2, Halifax, Nova Scotia B3J 3R7
	Manager: Western Region	B. Dietz Bcomm, FCIP Suite 630 Box 20, Bow Valley Square 1, 202-6th Avenue S.W., Calgary, Alberta T2P 2R9
	Manager: Pacific Region	E. M. Mak BA, BSc, FCIP Suite 1795, Two Bentall Centre, 555 Burrard Street, Box 239, Vancouver, British Columbia V7X 1M9
	Manager: Central Region	C. Robertson ACII 20 Eglinton Avenue West, Suite 2200, P.O. Box 2004, Toronto, Ontario M4R 1K8
	Manager: National Programmes	J. Williamson CIP, CRM 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:	C. Taylor MBA, ACII, MCMI
	Office:	Ansvar House, St Leonard's Road, Eastbourne BN21 3UR
	Tel:	01323 737541
Ansvar Insurance Limited	Managing Director:	J. Peberdy ANZIIF (Snr Assoc)
	Head Office:	PO Box 1655, Level 18, 303 Collins Street, Melbourne 3000
	Regional Manager: Victoria:	P. Hards ANZIIF (Snr Assoc) PO Box 1655, Level 13, 303 Collins Street, Melbourne 3000
	Regional Manager: New South Wales:	R. Smith ANZIIF (Snr Assoc) PO Box 2403, Level 1, 18 Smith Street, North Parramatta 1750
	Regional Manager: Queensland:	I. Ireland ANZIIF (Snr Assoc) GPO Box 747, 43 Peel Street, South Brisbane 4101
	Regional Manager: South Australia:	J. Jones ANZIIF (Snr Assoc) PO Box 630, Unit 6, 202 Glen Osmond Road, Fullarton 5063
	Regional Manager: Western Australia:	M. Thomas ANZIIF (Snr Assoc) 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 Life Limited	Chairman:	M. H. Tripp BSc, ARCS, FIA
	Head Office:	Beaufort House, Brunswick Road, Gloucester, GL1 1JZ
Ecclesiastical Underwriting Management Limited	Director and Underwriter:	K. P. Cannon FCII
	Office:	19-21 Billiter Street, London EC3M 2RY
	Tel:	020 7283 0666
South Essex Insurance Brokers Limited	Director:	B. W. Fehler
	Office:	South Essex House, North Road South Ockendon, Essex RM15 5BE
	Tel:	01708 850000

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 Wednesday, 24 June 2009 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 2008 and the report of the auditors thereon.

2 To re-elect Mr S. A. Wood as a director.*

3 To re-elect Mr D. Christie as a director.*

4 To consider the declaration of a dividend.

5 To re-appoint Deloitte 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:

6 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
24 March 2009

* Brief biographies of the directors seeking election or re-election are shown on page 6.

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.