ALLCHURCHES TRUST LIMITED

1043142

REPORT AND ACCOUNTS 31 DECEMBER 2004

Report and Accounts 31 December 2004

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Directors

Directors	M. R. Cornwall-Jones OBE, MA, ACIS *Chairman* The Hon. N. Assheton CVO, MA The Rt. Hon. The Viscount Churchill OBE, MA H. Harris-Hughes CBE, MA, FSI H. F. Hart MA The Rt. Revd. D. G. Snelgrove TD, MA, DD W. H. Yates FRICS
Company Secretary	Mrs R. J. Hall ACIS
Registered and Head Office	Beaufort House, Brunswick Road, Gloucester GL1 1JZ Tel: 01452 528533
Company Registration Number	1043742
Charity Registration Number	263960
Auditors	Deloitte & Touche LLP, London
Bankers	The Royal Bank of Scotland plc, 1 Westgate Street, Gloucester GL1 2TT
Solicitors	Speechly Bircham, 6 St Andrew Street, London EC4A 3LX

Directors' Report

The directors present their annual report and review together with the audited financial statements for the year ended 31 December 2004.

Allchurches Trust Limited is a company limited by guarantee not having share capital and is a registered charity. The main object of the company is to promote the Christian Religion and contribute to the funds of charitable institutions.

Principal activities

The principal activities of the trading subsidiaries throughout and at the end of the year remain the transaction of most forms of general and long term insurance in the United Kingdom and overseas and the provision of other financial services. A list of the company's main subsidiary undertakings is given on page 35.

The governing body is the board of directors and the governing documents are the Memorandum and Articles of Association which define the objects of the company and which entitle the board to appoint the directors.

Results and review

The income and charitable distributions of the Trust are shown in its statement of financial activities on page 7. We are pleased to report that the Trust's principal operating subsidiary, Ecclesiastical Insurance Office plc, was able to increase its grant by £650,000 to £4.9 million in the current year (*2003:£4.25 million*). This increase includes a special non-recurring donation of £500,000 due to exceptional current year performance. This enabled the Trust to improve its support to the Church and other charitable institutions with distributions increasing to £4.9 million. A copy of the grant making policy is available from the company secretary at the registered office shown on page 2.

The major risks to which the company is exposed have been reviewed by the directors, and systems have been established to mitigate those risks. The directors are responsible for the direction of the company and regularly review the activities of the charity and subsidiary companies and its grant making policies.

No significant change in activities occurred in the year or to the date of this report. The company continues to have use of the facilities and services provided free of charge by Ecclesiastical Insurance Office plc. The company continues to have adequate and available resources to continue its charitable activities.

Results and trading activities within the group

Ecclesiastical Insurance Office plc, the company's main subsidiary undertaking had a successful year. Profit after taxation amounted to £36.0 million *(2003 restated:£31.8 million)*. Total assets grew to £711.5 million *(2003 restated:£647.1 million)* and shareholders' funds amounted to £194.2 million *(2003 restated:£159.7 million)*. Further results and commentary on the trading activities within the group are fully set out in the chairman's statement on pages 2 to 4 and managing director's review of group operations on pages 5 to 9 of the accounts of the Ecclesiastical Insurance Office plc, a copy of which is sent to each member of Allchurches Trust Limited.

Charitable and political contributions

During the course of the year the company and its subsidiary undertakings distributed from their resources £5.0 million *(2003:£4.3 million)* for charitable purposes. A summary of these distributions is set out in note 9 on page 26. Details of individual grants have been submitted to the Charity Commission.

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

Reserving policy

The source of the Trust's income is derived from a cyclical industry. The directors nevertheless believe that it is desirable so far as possible to maintain stability of charitable distributions. In order to provide this stability it is their policy to retain, in reserve, funds at a level approximately equivalent to the amount actually distributed in the previous financial year.

The total amount available for charitable distribution at the end of the year was £5.3 million *(2003:£5.1 million)*.

Investment policy

Full details of the company's investments in subsidiary undertakings are disclosed in note 26 on page 35. Other investments of Allchurches Trust Limited comprise cash on deposit.

Directors' Report

Directors

The names of the directors of the company at the date of this report are stated on page 2.

The Rt. Hon. Viscount Churchill and the Hon. N. Assheton retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The trustees are covered by indemnity insurance, provided as part of a group policy. The amount paid in respect of the Trustees cannot be separately identified.

Directors' Interests

The interests of the directors, all of which are beneficial, in the 8.625% Non-Cumulative Irredeemable Preference shares of Ecclesiastical Insurance Office plc are as follows:

	Interest at 31.12.2004	*Interest at 1.1.2004**
	No.	*No.*
M. R. Cornwall-Jones	**500**	*500*
The Hon. N. Assheton	-	-
The Rt. Hon. The Viscount Churchill	-	-
H. Harris-Hughes	-	-
H. F. Hart	-	-
The Rt. Revd. D. G. Snelgrove	**700**	*700*
W. H. Yates	-	*500*

* The interests of the directors at 1 January 2004 were in the 2.8% First Cumulative Preference shares of Ecclesiastical Insurance Office plc which were redesignated as 8.625% Non-Cumulative Irredeemable Preference shares on 23 July 2004.

No director had an interest in any other shares or debentures of the group as at 31 December 2004. 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.

Statement of directors' responsibilities

United Kingdom company law requires the directors of a charity (namely the trustees) to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group as at the end of the financial year and of the profit or loss of the group and of the incoming resources and application of resources for that period.

In preparing those financial statements, the directors are required to select suitable accounting policies and apply them consistently, and to make reasonable and prudent judgements and estimates. The directors are also required to state whether applicable United Kingdom accounting standards have been followed and whether the financial statements have been prepared on the going concern basis, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for ensuring that the company keeps proper accounting records which disclose with reasonable accuracy, at all times, the financial position of the company and of the group and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the group's systems of internal controls, for safeguarding the assets of the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

Allchurches Trust Limited itself has no direct employees.

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. Allchurches Trust Limited holds the investments in the group companies, does not trade and does not have suppliers within the meaning of the Companies Act 1985. The number of days' purchases represented by the amounts due to trade creditors of the main operating companies in the United Kingdom at 31 December 2004, calculated in accordance with Schedule 7 of the Companies Act 1985, was 4.5 days *(6.2 days)*.

Related parties

During the year related party transactions consisting of £0.4 million (*2003:£0.6 million*) school fee annuities were accounted for by the group to Beaufort House Trust Limited, a charity under common control and registered at the same address. Of this £0.1 million (*2003:£0.1 million*) was prepaid at the balance sheet date. This has been accounted for in the long term business technical account.

Overseas branches

The group has branches in Canada and the Republic of Ireland.

Going concern

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

Auditors

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

By order of the board

Mrs R. J. Hall
Secretary

21 June 2005

Independent Auditors' Report

Independent auditors' report to the members of Allchurches Trust Limited

We have audited the financial statements of Allchurches Trust Limited for the year ended 31 December 2004 which comprise the statement of financial activities, the consolidated profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the statement of accounting polices and the related notes 1 to 26. 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

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the company and other members of the group is not disclosed.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards 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 circumstances of the company and the group, 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.

Equalisation reserves

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amounts set aside at 31 December 2004, and the effect of the movement in those reserves during the year on the balance on the general business technical account and profit on ordinary activities before taxation, are disclosed in note 20.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the company's and the group's affairs and the incoming resources and application of resources of the company and of the group as at 31 December 2004 and of the surplus of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors

London
5/7 ~~21 June~~ 2005

Statement of Financial Activities

for the year ended 31 December 2004

	Notes	Company 2004 £000	Company 2003 (Restated) £000	Group 2004 £000	Group 2003 (Restated) £000
Incoming resources					
Donations, legacies and similar incoming resources					
Gift aid from subsidiary undertaking		4,900	4,250	-	-
Investment income					
Deposit interest		203	163	203	163
Incoming resources from operating activities					
Activities for generating funds - trading subsidiaries profit		-	-	42,676	33,243
Other incoming resources		73	68	-	-
Total incoming resources		5,176	4,481	42,879	33,406
Resources expended					
Direct charitable expenditure					
Charitable grants	9	4,893	4,295	4,967	4,330
Resources expended on managing the charity		73	68	-	-
Net incoming resources for the year		210	118	37,912	29,076
Other recognised gains and losses					
Movement in revaluation reserve	15	37,579	31,759	-	-
Currency translation differences		-	-	(123)	2,801
Other movements		-	-	-	-
Net movement in funds		37,789	31,877	37,789	31,877
Total funds brought forward	16	135,599	103,722	135,599	103,722
Total funds carried forward		173,388	135,599	173,388	135,599

Total incoming resources for the group represent the profit before charitable grants for the financial year presented in the consolidated profit and loss non-technical account.

Other incoming resources consist of an amount of £73,000 (2003:£68,000) estimated by the Trustees as the fair value of management and administration costs incurred by subsidiary undertakings. An equal amount is shown within resources expended during the year. The company's results for 2003 have been restated to incorporate this notional income and related expense.

Total funds carried forward represents the reserves as held by the group at the year end as presented in the consolidated balance sheet.

All funds are unrestricted.

Consolidated Profit and Loss Account

for the year ended 31 December 2004

TECHNICAL ACCOUNT - GENERAL BUSINESS		Notes	2004 £000	*2003* *(Restated)* *£000*
Gross premiums written		2(a)	**343,945**	*354,187*
Outward reinsurance premiums			**(117,490)**	*(132,830)*
Net premiums written		2(a)	**226,455**	*221,357*
Change in the gross provision for unearned premiums			**(2,214)**	*13,579*
Change in the provision for unearned premiums, reinsurers' share			**2,799**	*(7,496)*
Change in the net provision for unearned premiums			**585**	*6,083*
Earned premiums, net of reinsurance			**225,870**	*215,274*
Claims paid	- gross amount		**138,949**	*155,234*
	- reinsurers' share		**(35,693)**	*(43,209)*
			103,256	*112,025*
Change in the provision for claims	- gross amount		**32,536**	*20,825*
	- reinsurers' share		**(17,485)**	*(7,031)*
			15,051	*13,794*
Claims incurred, net of reinsurance			**118,307**	*125,819*
Net operating expenses		4(a)	**71,708**	*67,122*
Total technical charges			**190,015**	*192,941*
Balance on the technical account before equalisation provision			**35,855**	*22,333*
Change in the equalisation provision		20	**(2,905)**	*(4,770)*
Balance on the technical account for general business			**32,950**	*17,563*

All of the amounts above are in respect of continuing operations.

Consolidated Profit and Loss Account

for the year ended 31 December 2004

		Notes	2004	*2003 (Restated)*
TECHNICAL ACCOUNT - LONG TERM BUSINESS			£000	*£000*
Gross premiums written		2(b)	19,185	*19,463*
Outward reinsurance premiums			(179)	*(451)*
Earned premiums, net of reinsurance			19,006	*19,012*
Investment income		3	26,822	*13,461*
Unrealised (losses)/gains on investments			(1,271)	*17,623*
Total technical income			44,557	*50,096*
Claims paid	- gross amount		29,659	*33,869*
	- reinsurers' share		(85)	*(146)*
			29,574	*33,723*
Change in the provision for claims	- gross amount		57	*(493)*
	- reinsurers' share		-	*92*
			57	*(401)*
Claims incurred, net of reinsurance			29,631	*33,322*
Change in other technical provisions				
Long term business provision	- gross amount		1,584	*880*
	- reinsurers' share		(576)	*633*
			1,008	*1,513*
Technical provision for linked business			6,011	*9,944*
Change in other technical provisions, net of reinsurance			7,019	*11,457*
Net operating expenses		4(a)	6,149	*5,502*
Investment expenses and charges		3	677	*3,086*
Tax attributable to long term business		8	(1,800)	*1,943*
Transfer to/(from) the fund for future appropriations			4,272	*(1,363)*
			9,298	*9,168*
Total technical charges			45,948	*53,947*
Balance on the technical account for long term business			(1,391)	*(3,851)*

All the amounts above are in respect of continuing operations in the United Kingdom.

Consolidated Profit and Loss Account

for the year ended 31 December 2004

	Notes	2004	2003 *(Restated)*
NON-TECHNICAL ACCOUNT		£000	*£000*
Balance on the general business technical account		32,950	*17,563*
Balance on the long term business technical account		(1,391)	*(3,851)*
Tax attributable to the shareholders' long term business profits		-	-
		31,559	*13,712*
Investment income	3	21,685	*20,508*
Unrealised gains on investments		13,349	*21,011*
Investment expenses and charges	3	(1,262)	*(1,567)*
Other operations		82	*90*
Other charges - recurring	4(b)	(1,863)	*(1,428)*
- exceptional	4(c)	-	*(4,155)*
		31,991	*34,459*
Operating profit		66,455	*52,941*
Change in equalisation provision	20	(2,905)	*(4,770)*
Profit on ordinary activities before tax	2(c)	63,550	*48,171*
Tax charge on profit on ordinary activities	8	17,780	*12,307*
Profit on ordinary activities after tax		45,770	*35,864*
Minority interests	17	2,891	*2,458*
Profit for the financial year		42,879	*33,406*
Charitable grants	9	4,967	*4,330*
Retained profit for the financial year	15	37,912	*29,076*

Non-equity interests included in minority interests are disclosed in note 17 to the accounts.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2004

Retained profit for the financial year		37,912	*29,076*
Currency translation differences		(123)	*2,801*
Total recognised gains and losses for the financial year	16(a)	37,789	*31,877*
Prior year adjustments	16(b)	1,264	-
Total recognised gains and losses since last annual report		39,053	*31,877*

Parent Company Balance Sheet

at 31 December 2004

	Notes	2004	2003
			(Restated)
		£000	*£000*
Fixed assets: investments			
Shares in group undertakings	11	**168,095**	*130,516*
Current assets			
Prepayments and accrued income		**2,912**	*2,264*
Cash at bank and in hand		**2,465**	*2,853*
		5,377	*5,117*
Creditors			
Amounts falling due within one year:			
Creditors		**84**	*34*
Net current assets		**5,293**	*5,083*
Net assets		**173,388**	*135,599*
Unrestricted reserves			
Revaluation reserve	15	**168,045**	*130,466*
Retained profits	15	**5,343**	*5,133*
		173,388	*135,599*

The financial statements on pages 7 to 35 were approved by the board of directors on 21 June 2005 and signed on their behalf by

M. R. CORNWALL-JONES *Chairman*

W. H. YATES *Director*

Consolidated Balance Sheet

at 31 December 2004

	Notes	2004	*2003 (Restated)*
		£000	*£000*
ASSETS			
Goodwill	10	**1,671**	*2,089*
Investments			
Land and buildings	11	**25,141**	*19,271*
Investments in participating interests	11	**47**	*45*
Other financial investments	11	**614,497**	*616,033*
		639,685	*635,349*
Assets held to cover linked liabilities	12	**46,915**	*40,903*
Reinsurers' share of technical provisions			
Provision for unearned premiums		**44,062**	*46,527*
Long term business provision	18	**1,185**	*609*
Claims outstanding	19	**107,776**	*90,622*
		153,023	*137,758*
Debtors			
Debtors arising out of direct insurance operations	13(a)	**52,720**	*63,326*
Debtors arising out of reinsurance operations	13(b)	**15,963**	*15,133*
Other debtors		**3,024**	*1,936*
		71,707	*80,395*
Other assets			
Tangible assets	14	**7,696**	*9,424*
Cash at bank and in hand		**182,645**	*99,332*
		190,341	*108,756*
Prepayments and accrued income			
Accrued interest and rent		**5,684**	*7,198*
Deferred acquisition costs		**28,475**	*27,564*
Other prepayments and accrued income		**2,427**	*3,713*
		36,586	*38,475*
Total assets	2(e)	**1,139,928**	*1,043,725*

Consolidated Balance Sheet

at 31 December 2004

	Notes	2004	*2003 (Restated)*
LIABILITIES		**£000**	*£000*
Reserves			
General reserve	15	**10,000**	*10,000*
Profit and loss account	15	**163,388**	*125,599*
		173,388	*135,599*
Minority interests	17	**38,074**	*28,077*
Fund for future appropriations		**14,510**	*10,238*
Technical provisions			
Provision for unearned premiums		**160,186**	*162,644*
Long term business provision	18	**217,066**	*215,482*
Claims outstanding	19	**363,592**	*332,576*
Equalisation provision	20	**17,613**	*14,708*
		758,457	*725,410*
Technical provision for linked liabilities		**46,915**	*40,903*
Provisions for other risks and charges	21	**19,582**	*19,708*
Deposits received from reinsurers		**27**	*26*
Creditors			
Creditors arising out of direct insurance operations		**4,706**	*5,086*
Creditors arising out of reinsurance operations	13(b)	**14,392**	*15,850*
Other creditors including taxation and social security	22	**46,119**	*44,194*
		65,217	*65,130*
Accruals and deferred income		**23,758**	*18,634*
Total liabilities		**1,139,928**	*1,043,725*

Consolidated Cash Flow Statement

for the year ended 31 December 2004 (excluding long term insurance business)

	Notes	2004 £000	*2003 £000*
Net cash inflow from operating activities	23(a)	**87,581**	*69,370*
Servicing of finance			
Loan interest paid		**(1,798)**	*(1,629)*
Preference dividends paid		**(2,891)**	*(2,458)*
Other interest paid		**(108)**	*(103)*
Taxation paid		**(9,188)**	*(4,923)*
Capital expenditure			
Purchase of tangible fixed assets		**(2,225)**	*(2,022)*
Proceeds from the disposal of fixed assets		**195**	*317*
Acquisitions and disposals		**11,388**	*-*
Charitable grants paid		**(4,958)**	*(4,345)*
Financing			
Capital element of lease purchase rental payments		**(675)**	*(426)*
Repayment of long term business loan		**(750)**	*-*
	23(b)	**76,571**	*53,781*
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings		**62,711**	*(10,866)*
Portfolio investment			
Purchases of shares and other variable yield securities		**7,081**	*31,597*
Purchases of fixed income securities		**152,680**	*286,166*
Purchases of properties		**1,850**	*18*
Sales of shares and other variable yield securities		**(3,666)**	*(24,416)*
Sales of fixed income securities		**(144,085)**	*(227,536)*
Sales of properties		**-**	*(1,182)*
Net investment of cash flows		**76,571**	*53,781*
Movement arising from cash flows		**76,571**	*53,781*
Movement in long term business		**7,545**	*7,460*
Repayment of long term business loan		**750**	*-*
Changes in market values and exchange rate effects		**9,545**	*27,122*
Total movement in portfolio investments net of financing		**94,411**	*88,363*
Portfolio investments net of financing at 1 January		**749,584**	*661,221*
Portfolio investments net of financing at 31 December	23(b)	**843,995**	*749,584*

Accounting Policies

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, modified for the revaluation of certain investments, in accordance with Section 255A of, and Schedule 9A to, the Companies Act 1985. The financial statements of the parent company have been prepared on a historical cost basis, in accordance with Section 226 of, and Schedule 4 to, the Companies Act 1985 and in accordance with applicable United Kingdom accounting standards.

The principal activities of the trading subsidiaries of the charity remain the transaction of insurance and the provision of financial services and all funds within the trading subsidiaries support their trade. As an insurance group, the consolidated financial statements are required to be prepared in accordance with Schedule 9A of the Companies Act 1985. For consistency with the requirements of Schedule 9A, the directors have followed the material recommendations of the 2003 Statement of Recommended Practice issued by the Association of British Insurers (ABI SORP) and the Statement of Recommended Practice (SORP 2000) "Accounting and Reporting by Charities". Where it provides a more appropriate presentation of financial statements, the ABI SORP has been adopted.

Changes in Accounting Policy

Adoption of the 2003 ABI SORP has led to a change in the method of accounting for London market and all reinsurance business accepted from the fund basis to the annual basis. In addition, the present value of in-force business within the group's subsidiary, Ecclesiastical Life Limited, can no longer be recognised as an asset within the balance sheet. The impact of these changes are detailed in note 16(b) and comparative figures have been restated.

In addition, as a consequence of the move to the 2003 ABI SORP unrealised gains, investment income and expense comparatives have been restated. In the prior year total investment return from Ecclesiastical Life shareholders fund was included within the long term business technical account and then transferred to the non-technical account. This investment return is now credited directly to the non-technical account. There is no impact on the loss in the long term business technical account or profit in the non-technical account as a result of this restatement.

Basis of consolidation

The assets, liabilities and results of subsidiary undertakings are included in the consolidated financial statements using audited accounts made up to 31 December. For businesses acquired or disposed of during the year, the results and cash flows relating to a business are included in the consolidated profit and loss account and the consolidated cash flow statement from the date of acquisition or up to the date of disposal.

Incoming resources

In the parent company, gift aid is recognised on an accruals basis.

Funds structure

There is no separate designation of funds.

Resources expended

In the parent company, resources expended comprise charitable grants which are recognised on an accruals basis.

Foreign exchange

Foreign currency revenue transactions and assets, liabilities and reserves are translated at rates of exchange ruling at the balance sheet date except for certain revenue transactions which are translated at the actual rate obtained on exchanging each currency for sterling. Exchange profits and losses which arise from normal trading activities are taken to the non-technical account.

The financial statements of foreign subsidiaries and branches are translated at the rate of exchange ruling at the balance sheet date. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are taken directly to reserves.

Premium levies

Provision is made for the potential liability to the Financial Services Compensation Scheme and Motor Insurers' Bureau in respect of premiums recognised in these accounts to the extent that it is probable that a levy will be raised and a reasonable estimate of its amount can be made. The charge for any such provision is included within administrative expenses.

Accounting Policies

General business technical account

Premiums

The annual basis of accounting has been adopted in accordance with the 2003 ABI SORP. Under the annual basis of accounting, written premiums, gross of commission payable to intermediaries, comprise the premiums on contracts entered into during a financial year, regardless of whether such amounts may relate in whole or in part to a later financial year.

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.

Unearned premiums

The provision for unearned premiums comprises the amount representing that part of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro rata method and adjusted where necessary to take into account the risk profile of the contracts.

Unexpired risks

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.

Claims incurred

Claims incurred comprise all claim payments and internal and external settlement expense payments made in the financial year and the movement in the provisions for outstanding claims and settlement expenses. Outward reinsurance recoveries are accounted for in the same period as the claims for the related direct or inwards reinsurance business being reinsured.

Claims outstanding

Outstanding claims provisions are based on the estimated ultimate cost of claims incurred but not settled by the balance sheet date, whether reported or not, including related settlement costs. The ultimate cost of claims cannot be known with certainty at the balance sheet date. Estimates are selected which are deemed to be prudent within the range of possible outcomes. Further details of estimation techniques are included in note 19. Any differences between provisions and subsequent settlements are dealt with in the technical accounts of later years.

Deferred acquisition costs

Commission and management costs which vary with, and are primarily related to, the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

Equalisation provision

Provision is made in the group accounts for the equalisation provision required by chapter 7 of the Integrated Prudential Sourcebook for Insurers. It is required by Schedule 9A to the Companies Act 1985 to be included within technical provisions in the balance sheet even though no actual liability exists at the balance sheet date.

Long term business technical account

Premiums

Premiums and consideration for annuities are credited when they become due. Reinsurance premiums are charged when they become payable.

Claims

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

Accounting Policies

Long term business technical account (continued)

Deferred acquisition costs

The costs of acquiring new insurance contracts which are incurred during a financial year but which relate to a subsequent financial year are deferred to the extent that they are recoverable out of future revenue margins.

Bonuses

Regular bonuses are recognised in the long term business technical account when declared and final bonuses when paid.

Long term business provision

The long term business provision is determined using methods and assumptions approved by the directors based on advice from the actuarial function holder. Initially it is calculated to comply with the reporting requirements under the Integrated Prudential Sourcebook. This statutory solvency basis of valuation is then adjusted by eliminating the undistributed surplus determined by that valuation together with certain reserves advised under insurance companies regulations and general contingency reserves. It is then further reduced to reflect the impact of acquisition costs incurred which will be recovered out of future premium margins. This has been determined by means of the Zillmer adjustment applied to the net premium valuation basis and by identifying negative reserves on other contracts. 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.

Allocation of surpluses and fund for future appropriations

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 is appropriated by the directors to participating policyholders by way of bonuses, with the unallocated balance carried forward in the fund for future appropriations. The surplus on the non-participating fund, representing shareholders' interests, is transferred to the non-technical account from the long term business technical account.

Investments

Listed equity investments and irredeemable fixed interest securities are included in the balance sheet at mid-market value or where appropriate, bid price. Redeemable debt and other fixed income securities are carried at amortised cost. Unlisted equity investments, mortgages and loans are included at directors' valuation, which does not exceed their net realisable value. Land and buildings, including properties occupied by the group, are stated at open market value as determined by external qualified surveyors. The full market value has been reduced by 2% to reflect anticipated selling costs. Assets held to cover linked liabilities comprise of listed equity investments and fixed income securities and are valued in accordance with the bases described above.

In accordance with SSAP 19, which requires a departure from the Companies Act 1985, no depreciation is provided in respect of freehold properties. The directors consider that depreciation of these properties would not give a true and fair view. If this departure from the Act had not been made, the profit for the year would have been reduced by that depreciation. However, the amount of depreciation cannot reasonably be quantified, because depreciation is only one of many factors reflected in the periodic valuation and the amount that might otherwise have been shown cannot be separately identified or quantified.

Group companies use futures contracts and options in a limited way to protect against stock market movements. These are included at market value and shown under the category of investments to which the contracts relate.

In the parent company balance sheet, investments in subsidiary undertakings are stated at the lower of net asset value or directors' valuation. The surplus or deficit over cost arising from that valuation is taken to the revaluation reserve.

Investment income and expenses

Investment income includes dividends, interest, rents, amortisation, gains and losses on the realisation of investments and related expenses. Dividends are included on the date that shares become quoted ex-dividend. Interest, rents and expenses are accounted for on an accruals basis. Realised gains and losses on investments represent net sales proceeds less cost or amortised cost as applicable.

Accounting Policies

Investment income and expenses (continued)

Unrealised gains and losses on investments are calculated as the difference between market value and original cost, and the movement during the year is recognised in the profit and loss account. 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.

Investment return on investments attributable to the long term business funds is reported in the technical account for long term business. The return on the associated shareholders' and general business funds are reported in the non-technical account.

Deferred taxation

Provision for deferred tax includes timing differences relating to the recalculation of gains and losses on investments, at rates at which it is expected that the tax will arise and discounted to take account of the likely timing of payments and the pattern of the expected realisation of investments. The discount rates used are the post-tax yields to maturity that could be obtained at the balance sheet date on government bonds with maturity dates and in currencies similar to those of the deferred tax assets or liabilities. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

No deferred tax asset or liability arises in respect of unrealised gains or losses on the assets held to cover linked liabilities.

Tangible assets

Tangible assets are capitalised and depreciated on a straight-line basis over their estimated useful lives. The periods used are as follows:

Computer equipment	5 years
Motor vehicles	Length of lease
Fixtures, fittings and office equipment	3 - 15 years

Pensions

The pension costs charged against profits are based on actuarial methods and assumptions designed to spread the anticipated pension costs over the service lives of the employees in the scheme, so as to ensure that the regular pension cost represents a substantially level percentage of the current and expected future pensionable payroll. Variations from regular cost are spread over the average service lives of current employees in the scheme.

Leasing commitments

Assets obtained under lease purchase contracts are capitalised as tangible fixed assets and are depreciated over the period of the lease. Obligations under such agreements are included in creditors net of finance charges allocated to future periods. The interest element of the lease payments is charged to the profit and loss account over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

Goodwill

Goodwill arising on an acquisition, being the difference between the cost and the fair value of assets and liabilities acquired, is capitalised in the balance sheet and amortised through the profit and loss account over its estimated useful economic life of 10 years, on a straight-line basis. The gain or loss on any subsequent disposal of a subsidiary or associated undertaking will include any attributable unamortised goodwill.

Notes to the Accounts

	2004	*2003*
1 Exchange rates		
The principal rates of exchange used for translation are:		
Canada	**C$2.30**	*C$2.31*
Republic of Ireland	**€ 1.41**	*€ 1.42*
Australia	**AUS$2.45**	*AUS$2.38*

2 Segmental analysis

(a) General business premiums

	2004		*2003*	
	Gross	**Net**	*Gross (Restated)*	*Net (Restated)*
	£000	**£000**	*£000*	*£000*
Direct:				
Accident	**7,178**	**6,928**	*7,635*	*7,271*
Motor	**28,766**	**26,060**	*30,164*	*27,324*
Property	**189,544**	**97,479**	*196,007*	*90,532*
Liability	**73,814**	**65,683**	*69,424*	*60,501*
	299,302	**196,150**	*303,230*	*185,628*
Reinsurance accepted and London market	**44,643**	**30,305**	*50,957*	*35,729*
Total	**343,945**	**226,455**	*354,187*	*221,357*
Geographical analysis - on the basis of location of office				
United Kingdom	**268,650**	**172,037**	*269,856*	*170,419*
Australia and New Zealand	**47,813**	**29,895**	*47,324*	*27,708*
Canada	**17,553**	**18,123**	*25,990*	*16,205*
Other overseas	**9,929**	**6,400**	*11,017*	*7,025*
Total	**343,945**	**226,455**	*354,187*	*221,357*

(b) Long term business premiums

Geographical analysis - on the basis of location of office

All long term business premiums were generated from offices within the United Kingdom.

The directors are of the opinion that no meaningful analysis of profit before taxation and net assets can be prepared by class of business.

2 Segmental analysis (continued)

(b) Long term business premiums (continued)

The analysis of long term business premiums written before reinsurance is:	2004 £000	*2003 £000*
Life insurance business		
- Single premiums	4,035	*4,533*
- Regular premiums	5,456	*5,716*
Annuity business		
- Single premiums	1,201	*334*
Pension business		
Non-linked contracts		
- Single premiums	3,214	*2,901*
- Regular premiums	3,152	*3,013*
Linked contracts		
- Single premiums	-	*427*
- Regular premiums	1,954	*2,325*
Permanent health insurance	173	*214*
	19,185	*19,463*
Gross new annualised regular premiums		
Life insurance	104	*252*
Pensions	580	*344*
	684	*596*

Pensions vesting as annuities during the year are not included as new business.

DSS rebates are treated as single premiums in the year in which received.

(c) Profit before taxation

	2004 £000	*2003 (Restated) £000*
United Kingdom	57,826	*43,630*
Australia and New Zealand	6,729	*3,829*
Canada	399	*3,222*
Other overseas	(13)	*1,341*
Long term business	(1,391)	*(3,851)*
Total	63,550	*48,171*

(d) Net assets

	2004 £000	*2003 £000*
United Kingdom	137,866	*103,856*
Australia and New Zealand	14,801	*9,947*
Canada	18,920	*18,356*
Other overseas	(774)	*(526)*
Long term business	2,575	*3,966*
Total	173,388	*135,599*

(e) Total assets

Of the total assets shown on page 12, £288,285,000 (*2003:£285,954,000*) are attributable to the long term business fund.

Notes to the Accounts

3 Investment return

	2004		*2003*	
	General business	**Long term business**	*General business (Restated)*	*Long term business (Restated)*
	£000	**£000**	*£000*	*£000*
Land and buildings	**1,487**	**39**	*1,453*	*19*
Other investments	**18,988**	**12,356**	*19,055*	*13,442*
Realised investment gains	**1,210**	**14,427**	-	-
Investment income	**21,685**	**26,822**	*20,508*	*13,461*
Investment expenses and charges:				
Investment management expenses, including interest	**1,262**	**677**	*1,140*	*614*
Realised investment losses	-	-	*427*	*2,472*
Investment expenses and charges	**1,262**	**677**	*1,567*	*3,086*
Net investment return	**20,423**	**26,145**	*18,941*	*10,375*

4 Expenses

		2004		*2003*	
		General business	**Long term business**	*General business (Restated)*	*Long term business*
		£000	**£000**	*£000*	*£000*
(a) Net operating expenses					
Commission paid on direct business		**50,312**	**17**	*51,458*	*(35)*
Other acquisition costs		**12,036**	-	*13,885*	-
Change in deferred acquisition costs		**469**	**304**	*1,708*	*44*
Administrative expenses		**45,723**	**6,004**	*37,788*	*5,660*
Reinsurance commissions and profit participation		**(36,832)**	**(176)**	*(37,717)*	*(167)*
		71,708	**6,149**	*67,122*	*5,502*
Group administrative expenses include:					
Depreciation	- owned assets	**3,668**	**195**	*3,656*	*427*
	- leased assets	**372**	**95**	*95*	*(52)*
Auditors' remuneration	- parent	**2**	-	*2*	-
	- group UK, including parent	**280**	**35**	*307*	*38*
	- group overseas	**107**	-	*101*	-
	- group fees for non-audit services	**180**	**28**	*128*	*39*
Interest payments under lease purchase contracts		**105**	**21**	*103*	*27*

Depreciation on leased assets in the prior year is net of surpluses and deficits arising on the surrender of leases.

(b) Other charges				
Debenture interest	**780**	-	*780*	-
Corporate business loan interest	**258**	-	*218*	-
Amortisation of goodwill	**418**	-	*430*	-
Non-insurance subsidiary expenses	**407**	-	-	-
	1,863	-	*1,428*	-

4 Expenses (continued)

(c) Exceptional items

The exceptional charge of £4,155,000 incurred in the year ended 31 December 2003 relates to the restructure of the group's head office and UK branches.

5 Employee information

The company has no employees *(2003:nil)*. The average monthly number of employees, including executive directors, employed by the group during the year, by geographical location was as follows:

	2004		*2003*	
	General business No.	**Long term business No.**	*General business No.*	*Long term business No.*
United Kingdom	**770**	**80**	*849*	*85*
Australia and New Zealand	**108**	**-**	*99*	-
Canada	**60**	**-**	*58*	-
Republic of Ireland	**17**	**-**	*16*	-
	955	**80**	*1,022*	*85*

	£000	**£000**	*£000*	*£000*
Wages and salaries	**26,976**	**2,147**	*24,285*	*2,167*
Social security costs	**1,993**	**190**	*1,834*	*201*
Other pension costs	**9,531**	**385**	*5,157*	*270*
	38,500	**2,722**	*31,276*	*2,638*

6 Directors' emoluments

No director received emoluments from Allchurches Trust Limited during the year *(2003:£nil)*.

	2004 £	*2003 £*
The aggregate emoluments of the directors in respect of services as non-executive directors of subsidiary undertakings	**45,212**	*72,625*
Highest paid director's fees	**38,596**	*38,500*

No director was a member of the group's defined benefit pension scheme during the year *(2003:nil)*.

7 Pensions

The group has continued to account for pension costs in accordance with Statement of Standard Accounting Practice (SSAP) 24, although in accordance with Financial Reporting Standard (FRS) 17 transitional arrangements, additional disclosures required have also been presented.

The group's main scheme is a defined benefit scheme for UK employees. The assets of the scheme are held separately from those of the group by the trustees of Ecclesiastical Insurance Office plc Staff Retirement Benefit Fund. Pension costs for this scheme are determined, on the basis of triennial valuations, by an independent qualified actuary using the projected unit method. The most recent valuation was at 31 December 2001. The assumptions which have the greatest effect on the valuation results are those related to the rate of return on investments and the rate of increase in salaries. It is assumed that there will be a positive margin of 2% between investment return and salary growth. Other than in respect of statutory pension increases, no allowance was made for pension increases as these are separately funded by the company.

The most recent actuarial valuation showed that the market value of the scheme's assets was £86,187,000 and that the actuarial value of the assets was in excess of 120% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The contribution of the group to the fund is currently 16% of pensionable salary. The scheme is registered with the Pension Schemes Registry. Pension liabilities of the Canadian branch are dealt with by payment to a Canadian Trust Fund, and pension liabilities for the Republic of Ireland branch are dealt with by payment to an Irish life office. The total funding cost for the year was £8,448,000 *(2003:£4,400,000)*. Of this £8,207,000 *(2003:£4,180,000)* related to the UK scheme.

The Ansvar subsidiaries operate separate schemes to the main group scheme. In the Republic of Ireland the non-contributory defined contribution scheme is now paid up. In the UK Ansvar operates a non-contributory defined benefit scheme, the contributions to which are determined with the advice of independent qualified actuaries on the basis of triennial valuations using the attained age method. Contributions are currently 21.6% of pensionable salary together with an annual contribution of £127,000 as recommended by the scheme actuary. It is assumed that there will be a 1% margin between investment return and salary growth. The latest SSAP 24 valuation of the scheme was at 31 December 2002, when the market value of the assets, at £2,711,000, represented 81% of the benefits that had accrued to members. In Australia, EIG-Ansvar operates, through an AMP Masterplan, a defined contribution plan that complies with the Superannuation Industry (Supervision) Act, 1993. Employees contribute at a rate of 5% of basic salary, and the company at a rate of 9%.

In addition, in accordance with FRS 17, the full actuarial valuation for each defined benefit pension scheme has been reviewed and updated at 31 December 2004. The financial assumptions used, which are the average for all schemes weighted according to the value of each schemes liabilities, were as follows:

	2004	*2003*	*2002*
Inflation	**2.75%**	*2.75%*	*2.25%*
Increase in salary	**4.00%**	*4.00%*	*4.00%*
Increase in pensions in payment	**2.75%**	*2.75%*	*2.25%*
Discount rate for scheme liabilities	**5.25%**	*5.50%*	*5.50%*

The above annual financial assumptions are prescribed by FRS 17 and do not necessarily reflect the assumptions used by the independent actuaries in the respective triennial valuations at 31 December 2001 and 31 December 2002.

Notes to the Accounts

7 Pensions (continued)

On full compliance with FRS 17, on the basis of the above assumptions, the amounts that would have been charged to the consolidated profit and loss account and consolidated statement of total recognised gains and losses for the year ended 31 December 2004 are shown below.

	2004	*2003*
	£000	*£000*
Service costs		
Current service costs	**4,295**	*4,269*
Past service costs	**990**	*1,135*
	5,285	*5,404*
Other finance costs		
Expected return on scheme assets	**6,802**	*5,263*
Interest cost on scheme liabilities	**(5,354)**	*(4,586)*
Net finance income	**1,448**	*677*
Actuarial gains and losses		
Difference between actual and expected return on scheme assets	**5,539**	*9,545*
Impact of changes in the valuation basis	**(12,010)**	*(5,258)*
Experience gains/(losses) arising on scheme liabilities	**3,416**	*(933)*
Total actuarial (losses)/gains	**(3,055)**	*3,354*
Movement in surplus during the year		
Surplus at 1 January	**6,769**	*3,763*
Current service cost	**(4,295)**	*(4,269)*
Contributions	**8,481**	*4,379*
Past service cost	**(990)**	*(1,135)*
Other finance income	**1,448**	*677*
Actuarial (losses)/gains	**(3,055)**	*3,354*
Surplus at 31 December	**8,358**	*6,769*

History of experience gains and losses	**2004**	*2003*	*2002*
Difference between the expected and actual return on scheme assets:			
Amount £000	**5,539**	*9,545*	*(14,597)*
Percentage of scheme assets	**4.63%**	*9.41%*	*17.35%*
Experience gains and losses on scheme liabilities:			
Amount £000	**3,416**	*(933)*	*(1,497)*
Percentage of the present value of the scheme liabilities	**3.07%**	*0.99%*	*1.86%*
Total amount that would be recognised in statement of total recognised gains and losses:			
Amount £000	**(3,055)**	*3,354*	*(16,094)*
Percentage of the present value of the scheme liabilities	**2.74%**	*3.54%*	*20.03%*

Notes to the Accounts

7 Pensions (continued)

The aggregate assets of the group defined benefit pension schemes and the expected rates of return were:

	Value at 2004 £000	**Expected rate of return**	*Value at 2003 (Restated) £000*	*Expected rate of return*	*Value at 2002 (Restated) £000*	*Expected rate of return*
Equities	**67,074**	**8.00%**	*57,596*	*8.00%*	*45,110*	*8.00%*
Bonds	**30,237**	**5.50%**	*28,274*	*5.50%*	*23,235*	*5.50%*
Other	**22,447**	**4.00%**	*15,575*	*4.00%*	*15,780*	*4.50%*
Total market value of assets	**119,758**		*101,445*		*84,125*	
Present value of scheme liabilities	**(111,400)**		*(94,676)*		*(80,362)*	
Net surplus in the schemes	**8,358**		*6,769*		*3,763*	
Deferred tax liability	**(2,507)**		*(2,031)*		*(1,129)*	
Net pension asset	**5,851**		*4,738*		*2,634*	
Group net assets excluding net pension asset	**173,388**		*135,599*		*103,722*	
Group net assets including net pension asset	**179,239**		*140,337*		*106,356*	
Profit and loss account excluding net pension asset	**163,388**		*125,599*		*93,722*	
Net pension asset	**5,851**		*4,738*		*2,634*	
Profit and loss account including net pension asset	**169,239**		*130,337*		*96,356*	

8 Taxation

	Long term business technical account		**Non-technical account**	
	2004	*2003*	**2004**	*2003 (Restated)*
	£000	*£000*	**£000**	*£000*
UK corporation tax for the current financial year	-	-	**12,339**	*4,343*
Overseas tax	-	-	**2,887**	*2,403*
	-	-	**15,226**	*6,746*
Deferred tax	**(1,800)**	*1,943*	**2,554**	*5,561*
	(1,800)	*1,943*	**17,780**	*12,307*

UK corporation tax in the long term business technical account has been calculated at rates between 20% and 30% *(2003:20% and 30%)* in accordance with the rates applicable to long term insurance business.

8 Taxation (continued)

The tax assessed for the year in the non-technical account differs from the standard rate of corporation tax of 30% for the reasons set out in the following reconciliation:

	Non-technical account	
	2004	*2003 (Restated)*
	£000	*£000*
Profit on ordinary activities before tax	63,550	*48,171*
Tax on profit on ordinary activities at standard rate	19,065	*14,451*
Factors affecting charge for the year:		
Depreciation for the period in excess of capital allowances	32	*(225)*
Unrealised investment movements and other timing differences	(3,630)	*(6,569)*
Dividends received	(261)	*(907)*
Expenses not deductible for tax purposes	871	*435*
Tax paid at non-standard rates	(995)	*(298)*
Tax relief on gift aid	32	*15*
Adjustments to tax charge in respect of prior years	112	*(156)*
Total actual amount of current tax	15,226	*6,746*

9 Charitable distributions

An analysis of current year charitable distributions by company and group is given below. Group distributions are disclosed net of tax relief.

	Company		Group	
	Distributions £000	Donations No.	Distributions £000	Donations No.
Dioceses	4,211	110	4,211	110
Cathedrals	257	92	257	92
Parishes and other charities	425	785	425	785
Tsunami appeal	-	-	35	1
Educational charities	-	-	39	2
	4,893	987	4,967	990

Due to their extensive nature, further analyses of company distributions are included in a separate publication which has been submitted to the Charity Commission. A list of individual grants to parishes and other charities can be obtained by writing to the company secretary at the address of the registered office shown on page 2. During the last five years a total of £22.7 million has been provided by group companies for church and charitable purposes.

10 Goodwill

	2004	*2003*
	£000	*£000*
Carrying value at 1 January	2,089	*2,519*
Amortisation	(418)	*(430)*
Carrying value at 31 December	1,671	*2,089*

Goodwill arose on the acquisition of a subsidiary undertaking.

Notes to the Accounts

11 Investments

Group

	2004 General business £000	2004 Long term business £000	2004 Total £000	*2003 General business £000*	*2003 Long term business £000*	*2003 Total £000*
Current value						
Freehold land and buildings						
- occupied by the group	2,510	441	2,951	*2,468*	*392*	*2,860*
- other	20,378	1,812	22,190	*16,411*	*-*	*16,411*
	22,888	2,253	25,141	*18,879*	*392*	*19,271*
Investment in participating interest						
- ordinary shares	47	-	47	*45*	*-*	*45*
Other financial investments						
Shares and other variable yield securities and units in unit trusts:						
- listed	129,875	86,806	216,681	*117,810*	*100,711*	*218,521*
- unlisted	18,772	322	19,094	*16,758*	*297*	*17,055*
	148,647	87,128	235,775	*134,568*	*101,008*	*235,576*
Debt and other fixed income securities:						
- listed	238,901	84,833	323,734	*229,387*	*87,437*	*316,824*
- unlisted	1,401	3,724	5,125	*1,343*	*3,262*	*4,605*
Loans secured by mortgages	16,168	29,823	45,991	*16,422*	*35,517*	*51,939*
Other loans	3,461	411	3,872	*6,671*	*418*	*7,089*
	259,931	118,791	378,722	*253,823*	*126,634*	*380,457*
Total	408,578	205,919	614,497	*388,391*	*227,642*	*616,033*
Cost						
Freehold land and buildings	19,470	2,249	21,719	*17,623*	*400*	*18,023*
Investment in participating interest	30	-	30	*30*	*-*	*30*
Other financial investments	346,678	146,074	492,752	*335,865*	*159,887*	*495,752*
	366,178	148,323	514,501	*353,518*	*160,287*	*513,805*
Debt and other fixed income securities valued at amortised cost						
Cost	232,817	73,421	306,238	*221,623*	*44,886*	*266,509*
Cumulative amortisation	(3,930)	(2,974)	(6,904)	*(2,034)*	*(879)*	*(2,913)*
Current value	228,887	70,447	299,334	*219,589*	*44,007*	*263,596*
Unamortised maturity value	(13,727)	(3,009)	(16,736)	*17,043*	*(1,156)*	*15,887*
Maturity value	215,160	67,438	282,598	*236,632*	*42,851*	*279,483*
Market value	228,496	75,402	303,898	*216,316*	*47,458*	*263,774*

Owner occupied properties were valued at market value based on vacant possession at 31 December 2003. Other properties were valued on an open market existing use basis at 31 December 2004. The valuation was performed by Cluttons, an external firm of Chartered Surveyors.

11 Investments (continued)

Parent

	Shares in subsidiary undertakings	
	2004	*2003 (Restated)*
	£000	*£000*
Cost		
At 1 January and 31 December	**50**	*50*
Revaluation		
At 1 January	**130,466**	*98,707*
Revaluation of group undertakings	**37,579**	*31,759*
At 31 December	**168,045**	*130,466*
Net book value		
At 31 December	**168,095**	*130,516*
At 1 January	**130,516**	*98,757*

All of the above investments are unlisted.

The valuation of shares in subsidiary undertakings brought forward at 1 January 2003 was previously reported as £101,209,000. This has been decreased by £2,502,000 following the prior year adjustment as disclosed in note 16(b).

12 Assets held to cover linked liabilities

	2004		*2003*	
	Current value	**Historical cost**	*Current value*	*Historical cost*
	£000	**£000**	*£000*	*£000*
Assets held to cover linked liabilities	**46,915**	**37,469**	*40,903*	*35,723*

13 Group debtors arising out of insurance operations

(a) Group debtors arising out of direct insurance operations

	2004			*2003*		
	General business	**Long term business**	**Total**	*General business*	*Long term business*	*Total*
	£000	**£000**	**£000**	*£000*	*£000*	*£000*
Policyholders	**15,816**	**1,344**	**17,160**	*22,433*	*1,262*	*23,695*
Intermediaries	**35,560**	**-**	**35,560**	*39,631*	*-*	*39,631*
	51,376	**1,344**	**52,720**	*62,064*	*1,262*	*63,326*

(b) Group debtors and creditors arising out of reinsurance operations

Where there are legal rights of set off, reinsurance debtors and creditors within the same party have been netted off to show the net debtor or creditor that will actually be settled.

14 Tangible assets

Group

	Computer equipment £000	Motor vehicles £000	Office equipment £000	Total £000
Cost:				
At 1 January 2004	18,329	3,038	3,181	24,548
Additions	1,969	955	209	3,133
Exchange movements	(12)	(6)	(16)	(34)
Disposals	(115)	(1,168)	(18)	(1,301)
At 31 December 2004	20,171	2,819	3,356	26,346
Depreciation:				
At 1 January 2004	11,803	1,141	2,180	15,124
Provided in the year	3,479	603	248	4,330
Exchange movements	(9)	(2)	(3)	(14)
Disposals	(112)	(662)	(16)	(790)
At 31 December 2004	15,161	1,080	2,409	18,650
Net book value at 31 December 2004				
General business	4,566	1,454	944	6,964
Long term business	444	285	3	732
	5,010	1,739	947	7,696
Net book value at 1 January 2004				
General business	*6,022*	*1,586*	*997*	*8,605*
Long term business	*504*	*311*	*4*	*819*
	6,526	*1,897*	*1,001*	*9,424*

None of the tangible assets noted above relate to the parent company.

15 Reserves

	Revaluation reserve £000	Long term insurance business reserve £000	General reserve £000	Profit and loss account £000	Total £000
Group					
As previously reported	-	4,000	10,000	120,335	134,335
Prior year adjustment	-	(4,000)	-	5,264	1,264
Balance at 1 January	-	-	10,000	125,599	135,599
Currency translation differences	-	-	-	(123)	(123)
Transfer from profit and loss account	-	-	-	37,912	37,912
Balance at 31 December	-	-	10,000	163,388	173,388
Parent					
As previously reported	129,202	-	-	5,133	134,335
Prior year adjustment	1,264	-	-	-	1,264
Balance at 1 January	130,466	-	-	5,133	135,599
Revaluation of group undertakings	37,579	-	-	-	37,579
Transfer from income and expenditure account	-	-	-	210	210
Balance at 31 December	168,045	-	-	5,343	173,388

Notes to the Accounts

16 Reconciliation of movements in group shareholders' funds

(a) Movement for the financial Year

	2004	*2003 (Restated)*
	£000	*£000*
Profit for the financial year	37,912	*29,076*
Currency translation differences	(123)	*2,801*
Net movement in shareholders' funds	37,789	*31,877*
Opening shareholders' funds as previously stated	134,335	*106,224*
Prior year adjustments (see note 16(b))	1,264	*(2,502)*
Opening shareholders' funds as restated	135,599	*103,722*
Closing shareholders' funds	173,388	*135,599*

(b) Prior Year Adjustment

On implementation of the 2003 ABI SORP the basis of accounting for London market and all reinsurance business accepted changed from the fund basis to the annual basis. This resulted in an increase in profit and loss reserves of £5,264,000, of which £3,766,000 relates to the year ended 31 December 2003 and £1,498,000 relates to years ended 31 December 2002 and prior. The derecognition of the internally generated present value of in-force business within the group's life business resulted in a reduction of £4,000,000 against reserves at 1 January 2003.

The net movement in reserves was £1,264,000, represented by an increase of £3,766,000 in the year ended 31 December 2003 and a decrease of £2,502,000 relating to years ended 31 December 2002 and prior.

Profit after tax at 31 December 2004 has decreased by £4,360,000 as a result of the move to the annual accounting basis.

17 Minority Interests

Minority interests comprise preference share capital and attributable dividends in a subsidiary undertaking.

	Profit and loss account		Balance sheet	
	2004	*2003*	2004	*2003*
	£000	*£000*	£000	*£000*
Non-equity interests				
Ecclesiastical Insurance Office plc				
2.8% First Cumulative Preference shares of £1 each	-	*2*	-	*77*
10% Redeemable Second Cumulative Preference shares of £1 each	300	*300*	3,000	*3,000*
8.625% Non-Cumulative Irredeemable Preference shares of £1 each	2,591	*2,156*	35,074	*25,000*
	2,891	*2,458*	38,074	*28,077*

Ecclesiastical Insurance Office plc has the right to redeem all or any of the 10% Redeemable Second Cumulative Preference shares at par together with a premium as follows:

Year of redemption	Premium
2003 to 2007	2½ %
2008 to 2012	Nil

Any of these preference shares not previously redeemed will be redeemed at par on 31 December 2012.

Notes to the Accounts

18 Long term business provision

The long term business provision has been calculated by the actuarial function holder of the company using the following principal assumptions approved by group directors:

Product	Interest rate	Mortality	Method of valuation
With-profit endowment and whole life assurances	2.50%	AM 92 Ult	Net premium with an implicit allowance for future bonuses of 1% pa via the interest rate.
With-profit bond	3.50%	AM 92 Ult	Greater of the surrender value and the value of future benefits and expenses (with an explicit allowance of 3.25% pa for future bonuses).
Deposit administration	N/A	N/A	Face value of benefits.
With-profit pensions deferred annuities	3.00%	PA92 (c=2030) Zero pre vesting	Gross premium with an implicit allowance for future bonuses of 1% pa via the interest rate.
Term assurances	3.25% or 4.25%	AM 92 Ult	Gross premium.
Pension annuities in payment	4.47%	PA92 (c=2030)	Present value of future benefits and expenses.
Life annuities in payment	3.25% to 4.50%	IA92 (c=2030)	Present value of future benefits and expenses.
Unit linked pensions	4.25%	AM 92 Ult	Value of units plus a sterling reserve.

No allowance is made for future lapses or surrenders in the valuation but the reserves allow for any guaranteed surrender benefits.

The mortality tables for pensions annuities (in deferment and in payment) reflect anticipated improvements in the mortality experience of pensioners according to the medium cohort CMI table. This assumption was strengthened for this valuation which increased the relevant reserves, in isolation, by around 3%.

The total bonuses attributable to the accounting period, representing an allocation of surplus, are £1.9m.

19 Claims outstanding

The outcome of the ultimate settlement cost of outstanding 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 ones 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.
- Future potential changes affecting the settlement of claims, such as changes in court attitudes to compensation, which may apply retrospectively.

The predicted ultimate settlement cost of outstanding general insurance claims is estimated using a variety of standard actuarial techniques, including Chain Ladder, Bornhuetter Ferguson and Fisher Lange methods.

19 Claims outstanding (continued)

Chain Ladder methods extrapolate paid and incurred claim amounts and the number of 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 Fisher Lange are used. This enables judgement to be made of the expected impact on claims of both internal and external developments such as portfolio mix movements, changes in public attitudes to claiming, changes in policy cover and changes in the rate of inflation in settlement costs. The Bornhuetter Ferguson method places more credibility on expected loss ratios for the most recent loss years. The Fisher Lange method incorporates projections of the number of claims and average cost including an allowance for inflation. For smaller portfolios the materiality of the business and data available may also shape the methods used in reviewing reserve adequacy.

To reflect the uncertain nature of the outcome of the ultimate settlement cost of claims, and to ensure 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, such as latent claims, appropriate further provisions are added. This degree of prudence generally results in a favourable release of provisions in the current financial year, arising from the settlement of claims relating to previous financial years. The favourable release in 2004 amounted to £7,713,000 *(2003 restated:£6,908,000)*.

Provisions are calculated both gross and net of expected reinsurance recoveries. Where an uncertainty in recoveries may arise, these are accounted for via separate reinsurance bad debt provisions.

20 Equalisation provision

The equalisation provision, established in accordance with the Integrated Prudential Sourcebook, is required by Schedule 9A to the Companies Act 1985 to be included within technical provisions, notwithstanding that it does not represent a liability at the balance sheet date. It is in addition to the provisions required to meet the anticipated ultimate cost of settling outstanding claims at the balance sheet date. The provision has reduced shareholders' funds by £17,613,000 *(2003:£14,708,000)* and decreased both the balance on the general business technical account and the profit before taxation for the year by £2,905,000 *(2003:£4,770,000)*.

21 Provisions for other risks and charges

The provision shown in the accounts relates to deferred tax in respect of short term timing differences and on unrealised investment gains and restructuring costs.

	2004		
Group	**Deferred tax £000**	**Restructuring costs £000**	**Total £000**
Balance at 1 January	17,508	2,200	19,708
Provided during the year	754	-	754
Utilised during the year	-	(880)	(880)
Balance at 31 December	18,262	1,320	19,582

Restructuring costs

The provision for restructuring costs relates to costs in respect of onerous leases arising from the restructure of the UK group's branch operations together with remaining severance costs.

21 Provisions for other risks and charges (continued)

Deferred tax

The potential liability for deferred tax provided in the financial statements is as follows:

	2004 £000	*2003 £000*
Unrealised investment gains	27,921	*31,861*
Depreciation in excess of capital allowances	(1,549)	*(1,442)*
Other timing differences	(1,081)	*(1,275)*
Undiscounted provision for deferred tax	25,291	*29,144*
Discount	(7,029)	*(11,636)*
Discounted provision for deferred tax	18,262	*17,508*

In accordance with FRS19 the present value of deferred tax has been recognised in respect of all timing differences which have originated but not reversed by the balance sheet date. A deferred tax asset of £3,800,000 *(2003:£2,700,000)* in respect of tax losses in the life fund has not been recognised in these accounts.

22 Other creditors including taxation and social security

	2004 £000	*2003 (Restated) £000*
Amounts falling due within one year:		
Other creditors	10,730	*13,555*
Taxation	9,198	*3,641*
Corporate business loan	-	*5,000*
	19,928	*22,196*
Amounts falling due after more than one year:		
Debenture stock	6,000	*6,000*
Corporate business loans	19,250	*15,000*
Other creditors	941	*998*
	26,191	*21,998*
	46,119	*44,194*

Included in other creditors are obligations under lease purchase contracts due:		
In 1 year or less	502	*525*
Between 2 and 5 years	941	*998*
	1,443	*1,523*

The £6,000,000 13% Debenture Stock 2018 is secured on the assets of Ecclesiastical Insurance Group plc. Except insofar as previously repaid, or purchased by the company or any of its subsidiaries and cancelled, the stock will be repaid at par on 31 August 2018.

A corporate business loan of £14,250,000 *(2003:£15,000,000)* is secured against the assets of Allchurches Mortgage Company Limited. Interest is payable at periodic London Interbank Offered Rates plus 0.7%. The final maturity date for the loan facility, totalling £16,000,000, is 23 December 2009.

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 may vary from nil to a maximum levy of 0.8% of UK written premium net of commission. At the year end the group has provided at the maximum rate in respect of this levy.

Notes to the Accounts

23 Notes to the cash flow statement (a) Reconciliation of profit on ordinary activities before tax to net cash flow from operating activities	2004 £000	*2003 (Restated)* *£000*
Profit on ordinary activities before tax	63,550	*48,171*
Depreciation charges	4,040	*3,751*
Amortisation of fixed interest securities	1,988	*1,447*
Amortisation of goodwill	418	*430*
Unrealised gains on investments	(13,349)	*(21,005)*
Increase in net general insurance technical provisions	16,717	*32,161*
Loss relating to long term business	1,391	*3,851*
Share of profits of associates	(2)	*(4)*
Loan interest payable	1,798	*1,631*
Other interest payable	108	*103*
Realised investment (gains)/losses	(1,210)	*1,022*
Loss on sale of tangible fixed assets	227	*31*
Movement in other debtors and creditors	10,362	*3,633*
Exchange and other non-cash movements	1,543	*(5,852)*
Net cash inflow from operating activities	87,581	*69,370*

(b) Movements in cash, portfolio investments and financing

	At 1 January 2004 £000	Cash flow £000	Changes in long term business £000	Exchange and other non-cash movements £000	At 31 December 2004 £000
Cash at bank and in hand	99,332	62,711	21,397	(795)	182,645
Shares and other variable yield securities	235,621	3,415	(13,880)	10,666	235,822
Fixed income securities	380,457	8,595	(7,845)	(2,485)	378,722
Land and buildings	19,271	1,850	1,861	2,159	25,141
Assets held to cover linked liabilities	40,903	-	6,012	-	46,915
	775,584	76,571	7,545	9,545	869,245
Loans due within one year	(5,000)	-	-	5,000	-
Loans due after one year	(21,000)	750	-	(5,000)	(25,250)
	749,584	77,321	7,545	9,545	843,995

24 Operating leases

Annual commitments and payments under non-cancellable operating leases were as follows:

	2004 Premises £000	2004 Equipment £000	*2003 Premises £000*	*2003 Equipment £000*
Commitments				
Expiring:				
Within 1 year	68	237	*387*	*545*
Between 2 and 5 years	523	167	*972*	*171*
Over 5 years	1,541	-	*1,197*	-
Total	2,132	404	*2,556*	*716*
Payments included in operating expenses	2,243	561	*2,590*	*494*

25 Capital commitments

At 31 December 2004 there were no outstanding contracts for capital expenditure *(2003:£nil)*.

26 Subsidiary undertakings

Subsidiaries	**Share capital**	**Holding of shares by:** Parent	Subsidiary
Incorporated and operating in Great Britain, engaged in investment, insurance and financial services or other insurance related business:			
Ecclesiastical Insurance Group plc	Ordinary shares	100%	
Allchurches Mortgage Company Limited	Ordinary shares	100%	
	6% Non-Cumulative Redeemable Preference shares		100%
Allchurches Investment Management Services Limited	Ordinary shares		100%
Ecclesiastical Life Limited	Ordinary shares		100%
Ansvar Insurance Company Limited	Ordinary shares		100%
Ansvar Pensions Limited	Ordinary shares		100%
Ecclesiastical Insurance Office plc	Ordinary shares		100%
	8.625% Non-Cumulative Irredeemable Preference shares		14.97%
Ecclesiastical Group Asset Management Limited	Ordinary shares		100%
Ecclesiastical Underwriting Management Limited	Ordinary shares		100%
Hinton and Wild (Home Plans) Limited	Ordinary shares		100%
The Churches Purchasing Scheme Limited	Ordinary shares		100%
Ecumenical Insurance Company Limited	Ordinary shares		100%
Incorporated and operating in Australia, engaged in insurance business:			
EIG - Ansvar Limited	Ordinary shares		100%
Incorporated and operating in New Zealand, engaged in insurance business:			
EIG - Ansvar Insurance (New Zealand) Limited	Ordinary shares		100%

In addition, there are seven other wholly owned subsidiary undertakings and a 30% investment in an associated undertaking whose assets and contribution to group income are not significant.

All the subsidiaries listed are included within the consolidated financial statements. Voting rights are in line with the holdings of ordinary shares.

In accordance with the exemption available under Financial Reporting Standard 8 'Related Party Disclosures', no disclosure is given of transactions with group companies.

During the year related party transactions consisting of £418,000 *(2003:£606,000)* school fee annuities were accounted for by the group to Beaufort House Trust Limited, an educational charity under common control and registered at the same address. Of this £134,000 *(2003:£145,000)* was prepaid at the balance sheet date. This has been accounted for in the long term business technical account. In the current year the group also made a donation to Beaufort House Trust Limited of £35,000 *(2003:£35,000)* net of tax relief.