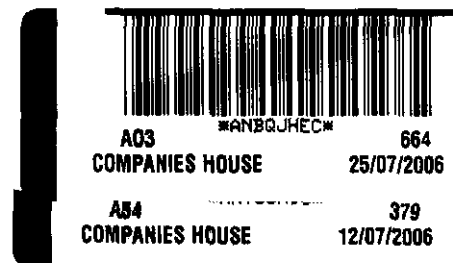


# ALLCHURCHES TRUST LIMITED

2005 ANNUAL REPORT



# Allchurches Trust Limited

## 2005 Annual Report

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# Allchurches Trust Limited

## Trustees

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**Trustees** 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  
W. H. Yates FRICS  
N. J. E. Sealy FCA

**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,  
Stonecutter Court, 1 Stonecutter Street  
London EC4A 4TR

**Bankers** The Royal Bank of Scotland plc,  
1 Westgate Street,  
Gloucester GL1 2TT

**Solicitors** Speechly Bircham,  
6 St Andrew Street,  
London EC4A 3LX

## Allchurches Trust Limited

### Trustees' Report - Objectives, Achievements and Performance

The Trustees present their annual report and review together with the audited financial statements for the year ended 31 December 2005.

#### Constitution

Allchurches Trust Limited ("the Trust") was incorporated in 1972. It is a company limited by guarantee not having a share capital and is a registered charity.

The governing documents are the Memorandum and Articles of Association.

#### Objective

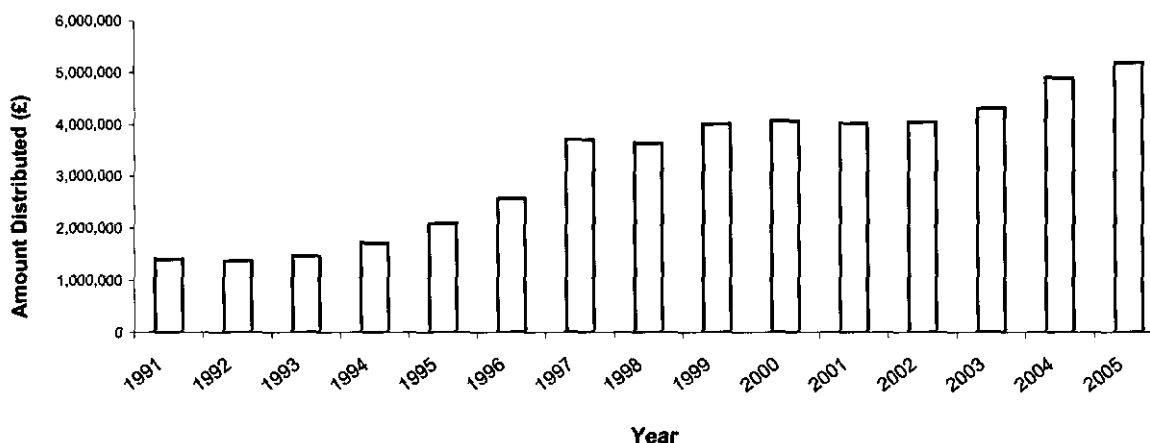
The object of the Trust is to promote the Christian Religion and to contribute to the funds of any charitable institutions, associations, funds or objects and to carry out any charitable purpose.

The Trust has adopted the following priorities in fulfilling its purpose:

- supporting the mission and work of the dioceses and cathedrals of the Church of England by the distribution of annual grants;
- supporting requests for financial assistance from Anglican churches, Churches of other Denominations and Christian communities and organisations in accordance with its grant making policy;
- maintaining a special project fund to support substantial projects which may have a broad impact on the Christian community in the UK; and
- establishing an overseas project fund to support the Church and Christian community overseas in accordance with its grant making policy.

#### Distributions

The Trust has steadily increased distributions to dioceses, cathedrals, parishes and charitable organisations since 1972. Over the last fifteen years, the Trust has distributed £48.5 million to dioceses, cathedrals, parishes and other charitable organisations.



During 2005, the Trust allocated charitable distributions amounting to £5,189,000 and a breakdown of these grants is as follows:

	Distributions £000	Donations No.
Dioceses	4,330	152
Cathedrals	266	92
Parishes and other charities	593	792
	<u>5,189</u>	<u>1,036</u>

## Allchurches Trust Limited

### Trustees' Report - Objectives, Achievements and Performance

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#### Dioceses and cathedrals

The majority of the Trust's donations are used to support the dioceses and cathedrals of the Church of England. During the year, the Trust made donations of £4.6 million (2004: £4.5 million). This amount includes a special distribution totalling £390,000 (2004: £404,000) allocated to the dioceses and cathedrals during the year.

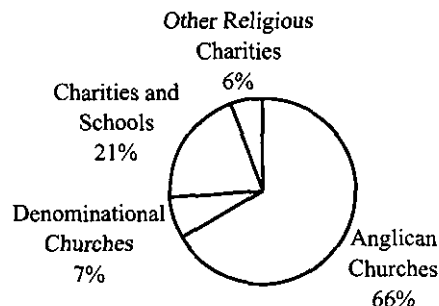
In a recent survey of dioceses, grants were largely allocated as follows:

- supporting deployment of clergy at parish level, particularly within deprived areas;
- funding other staff to support the work of the clergy;
- funding new initiatives ranging from supporting parishes to educational work in schools;
- maintaining and repairing the church fabric in cathedrals; and
- funding specific mission and outreach activities.

#### Anglican churches, Churches of other Denominations and the Christian community

The Trust has a general fund which responds to requests for financial assistance from Anglican churches, Churches of other Denominations and the Christian community in accordance with its grant making policy. In general, the Trust supports appeals from churches for building and restoration projects, repair of church fabric, church community initiatives, religious charities and charities preserving the UK heritage. During the year the Trust allocated £470,000 (2004: £440,000) to the general fund.

During 2005, the Trust allocated charitable distributions from its general fund in response to appeals for financial assistance as follows:



#### Special project fund

The special project fund was established in 1999. Its purpose is to support a small number of projects on a larger basis. During the year, the Trust allocated funds to the National Rural Officer Project at the Arthur Rank Centre, The Church Schools Initiative and St George's House, Windsor.

#### Overseas projects

During the year, the Trust allocated funds amounting to £18,000 to support Christian causes overseas in Canada and Ireland. In addition, a subsidiary company operating in Australia donated £111,000 (2004: £78,000) to charitable causes in Australia.

#### Some of the grants made

Some examples of recent donations are listed below to give an illustration of the variety of uses to which the grants are awarded.

##### *St. Michael's Church, Bath*

A grant was awarded to support the costs of installing a new street level access with the development of a foyer with lift and stairs to the church and crypt, a new heating and lighting system, and renovating the Sweetland organ.

## Allchurches Trust Limited

### Trustees' Report - Objectives, Achievements and Performance

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#### *The Abbey Church of St. Editha - Polesworth, Tamworth*

A grant was awarded to the church to create a 'sensory garden' which has benefited schools and disabled groups. The sensory garden has provided a link between a new entrance building and the Medieval Cloister wall. New visitor facilities include disabled access into the Abbey and Refectory, a disabled toilet and a kitchen for the Refectory.

#### *St. Alban's Cathedral*

The Trust awarded a grant towards the installation of a platform and lift from the Retro choir to the Saint's Chapel that houses a Shrine and timber Watching Loft (dating to the 15th Century) used by the Benedictine Monks to observe visitors. The installation of the lift will enable the Cathedral to open the Shrine to 400,000 visitors each year.

#### *St. Luke's Hospital for the Clergy*

The Trust has supported a major renovation project to upgrade the hospital. The project involves structural and interior renewal, construction of a new minor operations unit, upgrading the ward Information Technology system, in addition to ongoing patient care provided to over 3000 clergy and family of clergy.

#### *National Rural Officer Project - Arthur Rank Centre*

A grant was awarded towards the National Rural Officer Project at the Arthur Rank Centre, an expanding initiative delivering support to rural communities and its churches. The project works together with dioceses, deaneries and parishes offering information and resources to missions and ministry, community issues including social exclusion and deprivation. The project provides training in rural issues to multi-parish benefices and represents the Church of England on national bodies and at conferences.

#### *Church of England - The Church Schools Initiative*

The Trust was one of the earliest donors to the initiative in support of secondary schools and as such paved the way to a steady flow of donations. The Trust's grant was directed towards a 'Change Management' scheme that supports schools through the ethos and management changes required to establish a successful Church of England school. St Peter's School, Chelmsford is an example.

#### *Perry Rise Baptist Church - London*

The Trust awarded a grant to the church to support the costs of a major refurbishment project to allow the church to serve better the local community. The project involves replacing the church floor and creating a new foyer in the organ loft which will facilitate disabled access, and installing new lighting and upgrading the audio-visual equipment.

#### *All Saints Parish Church - Orton, Cumbria*

All Saints Parish Church is a 13th century church that has undergone a restoration project to prevent further weather damage to the interior of the church. The Trust provided financial support towards replacing rotten roof timbers, restoring damaged slate, re-pointing masonry and installing new earthworks throughout the exterior walls.

#### *Woodlands Hospice - Liverpool*

A grant was awarded to the Woodlands Hospice to build a 16-bedded community hospice unit adjacent to the existing day hospice. The hospice provides free care to local people living with cancer and other life-threatening illnesses. The facility is able to provide patients with short term, 24 hour a day respite without the need for hospitalisation.

#### *The Church of St. Columba - Crosspool, Sheffield*

The Trust provided financial assistance towards the 'Tower Lantern Appeal'. The appeal involved improvements to the design of the church tower, upgrading the construction material, and replacement of the decorative metalwork at the top of the church tower.

# Allchurches Trust Limited

## Trustees' Report - Financial Review

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### Overview

Allchurches Trust Limited had a successful year and was able to improve its financial support to the Church and other charitable institutions with distributions increasing to £5.2 million.

The charitable distributions of the Trust are shown in its statement of financial activities on page 12.

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

### Incoming resources

The Trust's principal operating subsidiary, Ecclesiastical Insurance Office plc, was able to increase its grant by £0.45 million to £5.35 million in the current year (2004: £4.9 million). This amount includes a special donation of £650,000 (2004: £500,000) due to exceptional current year performance.

Other income of the Trust comprises interest received from cash on deposit.

The income of the Trust is shown in its statement of financial activities on page 12.

### Trading subsidiaries

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 59.

Ecclesiastical Insurance Office plc, the company's main subsidiary undertaking had a successful year. Group profit after taxation amounted to £72.0 million (2004: £48.7 million restated). Group total assets grew to £1,306.8 million (2004: £1,152.7 million restated) and group shareholders' funds amounted to £301.5 million (2004: £208.7 million restated). Ecclesiastical Insurance Office plc has subsidiary companies in Australia and New Zealand and branches in Canada and the Republic of Ireland.

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 Group Chief Executive'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.

### 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 2005, calculated in accordance with Schedule 7 of the Companies Act 1985, was 7.9 days (2004: 4.5 days).

### Related parties

During the year related party transactions consisting of £411,594 (2004: £417,863) of 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 £118,280 (2004: £134,450) was prepaid at the balance sheet date. This has been accounted for in the long term business technical account.

### Going concern

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

### 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.

## **Allchurches Trust Limited**

### **Trustees' Report - Governance and Decision Making**

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#### **Governing body**

The body responsible for the management, actions and decisions of the company is the Board of Trustees. The Board normally meets five times a year. The Board has not appointed any formal Committees or Trustees to executive office.

#### **Board proceedings**

The Board seeks to ensure that all activities comply with the UK law and regulatory guidance, and come within agreed charitable objectives. Its work includes setting the strategic direction of the charity, developing the objectives, reviewing the performance of trading subsidiaries and delivering the outcomes for which the charity was established.

Board procedures have been established setting out a framework for the conduct of Trustees with clear guidelines as to the standard of behaviour, responsibilities, and best practice in fulfilling their obligations to the Trust.

Trustees are able, where appropriate, to take independent professional advice at no personal expense so that they are able to fulfil their role.

#### **Appointments to the Board**

The Board aims to have a diverse group of Trustees, with a balance of necessary skills and experience and which is broadly representative of the community it serves. Dialogue with representatives from the church community it serves takes place in identifying potential candidates for the Board. All appointments to the Board are made on merit and to fulfil a specific function or need. The Trust does not feel it appropriate to open Board membership to a wider range of candidates.

#### **Trustees**

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

The Rt. Revd. D. G. Snelgrove retired from the Board on 6 December 2005. The Board expressed their gratitude for his outstanding contribution and dedication to the company and the group over the years. Mr N. J. E. Sealy was appointed as a Trustee on 20 June 2006.

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.

#### **Election of Trustees**

In accordance with the Articles of Association, the Trustees may at any time appoint any person to be a Trustee either to fill a casual vacancy or in addition to the existing Trustees. Any such Trustee appointed shall retire at the following annual general meeting and be eligible for re-election by the members. In certain circumstances the Articles of Association permit a member to propose for election a Trustee in general meetings.

Mr M. R. Cornwall-Jones and Mr W. H. Yates retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. Mr N. J. E. Sealy was appointed to the board on 20 June 2006, and in accordance with the Articles of Association, he retires at the forthcoming annual general meeting and, being eligible, offers himself for election.

#### **Induction and training**

New Trustees are supported through an induction process which includes a formal presentation covering all aspects of the role, company and group. In addition, a continuing professional development programme has been introduced for existing Trustees.

#### **Members**

In accordance with the Articles of Association, the company in general meeting may admit any person to membership provided the total number of members does not exceed 50. In the event of the company being wound up, the liability of each of the members is limited to £1 each.

#### **Risks**

The major risks to which the company is exposed are regularly reviewed by the Trustees with the aid of external legal advisers. Systems have been established to mitigate these risks.



## Allchurches Trust Limited

### Trustees' Report - Governance and Decision Making

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#### Risks (continued)

Details of the financial risk management objectives and policies of the group and company and its exposures are disclosed in note 2 to the financial statements. The Trust is exposed to financial risk through its investments in group undertakings and its cash on deposit. In respect of investments in group undertakings, the Trust is subject to the financial risks within those undertakings. In respect of its cash deposits the Trust is exposed to interest rate risk.

#### Charitable and political contributions

During the course of the year the company and its subsidiary undertakings distributed from their resources £5.4 million (2004: £5.0 million) for charitable purposes. A summary of these distributions is set out in note 11. 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 Trustees 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 at least 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 £5.8 million (2004: £5.3 million).

#### Investment policy

Full details of the company's investments in subsidiary undertakings are disclosed in note 28. Other investments of Allchurches Trust Limited comprise cash on deposit.

#### Grant making policy

The Trustees regularly review the grant making policy of the Trust to ensure it remains appropriate to the strategic direction of the Charity and its objects. A copy of the grant making policy is available from the company secretary at the registered office shown on page 2.

#### Trustees' interests

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

	Interest at 31.12.2005	Interest at 1.1.2005
	No.	No.
M. R. Cornwall-Jones	500	500
The Hon. N. Assheton	-	-
The Rt. Hon. The Viscount Churchill	-	-
H. Harris-Hughes	-	-
H. F. Hart	-	-
W. H. Yates	-	-
N. J. E. Sealy	-	-

No Trustee had an interest in any other shares or debentures of the group as at 31 December 2005. 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 Trustee was or is materially interested.

## Allchurches Trust Limited

### Trustees' Report - Governance and Decision Making

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#### Statement of Trustees' 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 trustees are required to select suitable accounting policies and apply them consistently, and to make reasonable and prudent judgements and estimates. The trustees 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 trustees 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.

#### Equalities and diversity

The company and its trading subsidiaries are committed to the principle and practice of equal opportunity in employment for all its employees, applicants for employment and Board membership.

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.

#### Governance code

The Board intend and believe that the affairs of the company should be conducted in accordance with best business practice and use the Good Governance Code for the Voluntary and Community Sector to review performance in this area.

By order of the board



Mrs R. J. Hall  
*Secretary*

20 June 2006

# Allchurches Trust Limited

## Independent Auditors' Report

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### **Independent auditors' report to the members of Allchurches Trust Limited**

We have audited the group and individual company financial statements (the "financial statements") of Allchurches Trust Limited for the year ended 31 December 2005 which comprise the statement of financial activities, the consolidated profit and loss account, the consolidated and individual company balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the charitable 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 charitable 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 trustees and auditors**

As described in the statement of trustees' responsibilities, the trustees, who are also the directors of the charity for the purposes of company law, are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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, in accordance with the relevant financial reporting framework, and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the trustees' report is not consistent with the financial statements, if the charity 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 trustees' remuneration and other transactions is not disclosed.

We read the trustees' 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 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 judgments made by the trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the charitable 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 2005, 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the charitable company's affairs as at 31 December 2005 and of its incoming resources and application of resources, including its income and expenditure, for the year then ended;

**Allchurches Trust Limited**

**Independent Auditors' Report**

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- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's affairs as at 31 December 2005 and of the group's profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche LLP*

Deloitte & Touche LLP  
*Chartered Accountants and Registered Auditors*  
London  
June 2006

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# Allchurches Trust Limited

## Statement of Financial Activities

for the year ended 31 December 2005

	Notes	Company		Group	
		2005	2004 (Restated)	2005	2004 (Restated)
		£000	£000	£000	£000
<b>Incoming resources</b>					
<b>Incoming resources from generated funds:</b>					
<i>Investment income</i>					
Gift aid from subsidiary undertaking		5,350	4,900	-	-
Deposit interest		252	203	252	203
<i>Activities for generating funds</i>					
Trading subsidiaries profit		-	-	67,577	47,182
<i>Voluntary income</i>					
Donated services and facilities		61	73	-	-
<b>Total incoming resources</b>		<b>5,663</b>	<b>5,176</b>	<b>67,829</b>	<b>47,385</b>
<b>Resources expended</b>					
<i>Charitable activities</i>					
Charitable grants	11	5,189	4,893	5,369	4,998
<i>Costs of generating voluntary income</i>					
Donated services and facilities		61	73	-	-
Net incoming resources for the year		413	210	62,460	42,387
<b>Other recognised gains and losses</b>					
Movement in revaluation reserve	13	61,147	40,063	-	-
Currency translation differences		-	-	3,769	(24)
Actuarial losses on retirement benefits		-	-	(8,744)	(2,090)
<b>Total recognised gains and losses</b>		<b>61,560</b>	<b>40,273</b>	<b>57,485</b>	<b>40,273</b>
Other movements	17	-	-	4,075	-
Net movement in funds		61,560	40,273	61,560	40,273
Total funds brought forward		175,958	135,685	175,958	135,685
Total funds carried forward	17	237,518	175,958	237,518	175,958

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

Voluntary income consists of an amount of £61,000 (2004: £73,000) estimated by the Trustees as the fair value of management and administration costs incurred by subsidiary undertakings on behalf of the company but not recharged. An equal amount is shown within resources expended during the year.

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.

# Allechurches Trust Limited

## Consolidated Profit and Loss Account

for the year ended 31 December 2005

	Notes	2005 £000	2004 (Restated) £000
<b>TECHNICAL ACCOUNT - GENERAL BUSINESS</b>			
Gross premiums written	4(a)	346,634	344,020
Outward reinsurance premiums		(117,536)	(117,067)
Net premiums written	4(a)	229,098	226,953
Change in the gross provision for unearned premiums		2,598	(2,081)
Change in the provision for unearned premiums, reinsurers' share		(810)	2,672
Change in the net provision for unearned premiums		1,788	591
<b>Earned premiums, net of reinsurance</b>		<b>227,310</b>	<b>226,362</b>
Claims paid			
- gross amount		144,203	138,121
- reinsurers' share		(41,814)	(35,456)
		102,389	102,665
Change in the provision for claims			
- gross amount		15,424	32,433
- reinsurers' share		6,067	(17,637)
		21,491	14,796
Claims incurred, net of reinsurance		123,880	117,461
Net operating expenses	6(a)	67,057	69,875
<b>Total technical charges</b>		<b>190,937</b>	<b>187,336</b>
<b>Balance on the technical account before equalisation provision</b>		<b>36,373</b>	<b>39,026</b>
Change in the equalisation provision	20	(3,177)	(2,905)
<b>Balance on the technical account for general business</b>		<b>33,196</b>	<b>36,121</b>

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

# Allchurches Trust Limited

## Consolidated Profit and Loss Account

for the year ended 31 December 2005

	Notes	2005 £000	2004 (Restated) £000
<b>TECHNICAL ACCOUNT - LONG TERM BUSINESS</b>			
Gross premiums written	4(b)	15,052	15,893
Outward reinsurance premiums		(853)	(179)
Earned premiums, net of reinsurance		14,199	15,714
Investment income	5	14,397	27,535
Unrealised gains/(losses) on investments		25,022	(1,050)
<b>Total technical income</b>		<b>53,618</b>	<b>42,199</b>
Claims paid			
- gross amount		23,224	26,123
- reinsurers' share		(235)	(88)
		22,989	26,035
Change in the provision for claims			
- gross amount		(147)	57
- reinsurers' share		(57)	2
		(204)	59
Claims incurred, net of reinsurance		22,785	26,094
Change in other technical provisions			
Long term business provision			
- gross amount		(6,032)	3,204
- reinsurers' share		(498)	(576)
		(6,530)	2,628
Technical provision for linked business		3,580	530
Provision for investment contract liabilities		6,992	4,702
Change in other technical provisions, net of reinsurance		4,042	7,860
Net operating expenses	6(a)	3,939	6,219
Investment expenses and charges	5	760	677
Tax attributable to long term business	10	1,988	(866)
Transfer to the fund for future appropriations		15,541	3,524
		22,228	9,554
<b>Total technical charges</b>		<b>49,055</b>	<b>43,508</b>
<b>Balance on the technical account for long term business</b>		<b>4,563</b>	<b>(1,309)</b>

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

# Allchurches Trust Limited

## Consolidated Profit and Loss Account

for the year ended 31 December 2005

	Notes	2005 £000	2004 (Restated) £000
<b>NON-TECHNICAL ACCOUNT</b>			
Balance on the general business technical account		33,196	36,121
Balance on the long term business technical account		4,563	(1,309)
Tax attributable to the shareholders' long term business profits		-	-
		<b>37,759</b>	<b>34,812</b>
Investment income	5	30,861	23,357
Unrealised gains on investments		36,804	13,996
Investment expenses and charges	5	(9,037)	(2,596)
Other finance income	16	2,268	1,702
Other operations		353	283
Other charges	6(b)	(2,356)	(825)
Charitable grants	11	(5,369)	(4,998)
		<b>53,524</b>	<b>30,919</b>
Operating profit		<b>94,460</b>	<b>68,636</b>
Change in equalisation provision	20	(3,177)	(2,905)
<b>Profit on ordinary activities before tax</b>	4(c)	<b>91,283</b>	<b>65,731</b>
Tax charge on profit on ordinary activities	10	(24,558)	(20,753)
<b>Profit on ordinary activities after tax</b>		<b>66,725</b>	<b>44,978</b>
Minority interests	19	(4,265)	(2,591)
<b>Retained profit for the financial year</b>	17	<b>62,460</b>	<b>42,387</b>

## CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2005

		2005 £000	2004 (Restated) £000
Retained profit for the financial year		62,460	42,387
Currency translation differences		3,769	(24)
Actuarial losses relating to pension asset		(12,307)	(3,101)
Movement on deferred tax relating to pension asset		3,669	908
Actuarial (losses)/gains relating to other retirement benefits		(152)	147
Movement on deferred tax relating to other retirement benefits		46	(44)
<b>Total recognised gains and losses for the financial year</b>	18(a)	<b>57,485</b>	<b>40,273</b>
Prior year adjustments	18(b)	2,570	86
<b>Total recognised gains and losses since last annual report</b>		<b>60,055</b>	<b>40,359</b>



# Allchurches Trust Limited

## Parent Company Balance Sheet

at 31 December 2005

	Notes	2005 £000	2004 (Restated) £000
<b>Fixed assets: investments</b>			
Shares in group undertakings	13	231,812	170,665
<b>Current assets</b>			
Prepayments and accrued income		10	2,912
Cash at bank and in hand		5,750	2,465
		<u>5,760</u>	<u>5,377</u>
<b>Liabilities</b>			
Creditors: amounts falling due within one year		54	84
<b>Net current assets</b>		<u>5,706</u>	<u>5,293</u>
<b>Net assets</b>		<u>237,518</u>	<u>175,958</u>
<b>The funds of the charity</b>			
Revaluation reserve	17	231,762	170,615
Unrestricted income funds	17	5,756	5,343
		<u>237,518</u>	<u>175,958</u>

The financial statements on pages 12 to 59 were approved by the Board of Trustees on 20 June 2006 and signed on their behalf by

  
M. R. CORNWALL-JONES Chairman

  
H. F. HART Trustee

**Allchurches Trust Limited**  
**Consolidated Balance Sheet**

at 31 December 2005

	Notes	2005 £000	2004 (Restated) £000
<b>ASSETS</b>			
<b>Goodwill</b>	12	1,253	1,671
<b>Investments</b>			
Land and buildings	13	33,470	25,659
Other financial investments	13	799,189	665,754
		<u>832,659</u>	<u>691,413</u>
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	20	45,304	44,062
Long term business provision	20	1,683	1,185
Claims outstanding	20	103,566	107,776
		<u>150,553</u>	<u>153,023</u>
<b>Debtors</b>			
Debtors arising out of direct insurance operations	14(a)	53,452	51,535
Debtors arising out of reinsurance operations	14(b)	12,865	15,964
Other debtors		6,117	4,340
		<u>72,434</u>	<u>71,839</u>
<b>Other assets</b>			
Tangible assets	15	8,150	7,739
Cash at bank and in hand		178,429	182,644
		<u>186,579</u>	<u>190,383</u>
<b>Prepayments and accrued income</b>			
Accrued interest and rent		7,081	5,684
Deferred acquisition costs		29,121	28,601
Other prepayments and accrued income		2,596	2,428
		<u>38,798</u>	<u>36,713</u>
<b>Total assets excluding pension assets</b>		<u>1,282,276</u>	<u>1,145,042</u>
<b>Pension assets</b>	16	<u>1,358</u>	<u>6,557</u>
<b>Total assets</b>	4(e)	<u>1,283,634</u>	<u>1,151,599</u>

**Allchurches Trust Limited**  
**Consolidated Balance Sheet**

at 31 December 2005

	Notes	2005 £000	2004 (Restated) £000
<b>LIABILITIES</b>			
<b>Reserves</b>			
Translation reserve	17	3,745	(24)
General reserve	17	-	10,000
Profit and loss account	17	233,773	165,982
		<u>237,518</u>	<u>175,958</u>
<b>Minority interests</b>	19	56,953	35,074
<b>Fund for future appropriations</b>		29,706	14,164
<b>Technical provisions</b>			
Provision for unearned premiums	20	166,531	161,474
Long term business provision	20	204,953	210,984
Claims outstanding	20	384,460	363,592
Equalisation provision	20	20,790	17,613
		<u>776,734</u>	<u>753,663</u>
<b>Technical provision for linked liabilities</b>	20	12,695	9,115
<b>Investment contract liabilities</b>	21	48,846	42,219
<b>Provisions for other risks and charges</b>	22	38,439	27,546
<b>Deposits received from reinsurers</b>		9	27
<b>Creditors</b>			
Creditors arising out of direct insurance operations		1,955	4,706
Creditors arising out of reinsurance operations	14(b)	11,536	14,392
Other creditors including taxation and social security	24	39,839	46,685
		<u>53,330</u>	<u>65,783</u>
<b>Accruals and deferred income</b>		24,432	23,860
<b>Total liabilities excluding retirement benefit obligations</b>		<u>1,278,662</u>	<u>1,147,409</u>
<b>Retirement benefit obligations</b>	16	4,972	4,190
<b>Total liabilities</b>		<u>1,283,634</u>	<u>1,151,599</u>

# Allchurches Trust Limited

## Consolidated Cash Flow Statement

for the year ended 31 December 2005 (excluding long term insurance business)

	Notes	2005 £000	2004 £000
<b>Net cash inflow from operating activities</b>	25(a)	<b>79,937</b>	<b>83,300</b>
<b>Servicing of finance</b>			
Loan interest paid		(1,690)	(1,530)
Redeemable preference share dividends paid		(150)	(300)
Preference dividends paid to minority interests		(4,265)	(2,591)
Other interest paid		(121)	(143)
<b>Taxation paid</b>		<b>(17,708)</b>	<b>(9,254)</b>
<b>Capital expenditure</b>			
Purchase of tangible fixed assets		(3,158)	(2,225)
Proceeds from the disposal of fixed assets		74	93
<b>Acquisitions and disposals</b>		<b>329</b>	<b>11,391</b>
<b>Financing</b>			
Capital element of lease purchase rental payments		(345)	(349)
Repayment of long term business loan		(2,800)	(750)
Repayment of other borrowings		(3)	-
Capital contributions from minority interests		21,900	-
	25(b)	<b>72,000</b>	<b>77,642</b>
<b>Cash flows were invested as follows:</b>			
<b>(Decrease)/increase in cash holdings</b>		<b>(946)</b>	<b>63,920</b>
<b>Portfolio investment</b>			
Purchases of shares and other variable yield securities		12,070	7,081
Purchases of fixed income securities		273,316	149,760
Purchases of properties		2,330	1,849
Sales of shares and other variable yield securities		(6,116)	(3,666)
Sales of fixed income securities		(208,654)	(141,302)
<b>Net investment of cash flows</b>		<b>72,000</b>	<b>77,642</b>
<b>Movement arising from cash flows</b>		<b>72,000</b>	<b>77,642</b>
Movement in long term business		25,350	8,338
Repayment of long term business loan		2,800	750
Changes in market values and exchange rate effects		39,681	11,107
<b>Total movement in portfolio investments net of financing</b>		<b>139,831</b>	<b>97,837</b>
<b>Portfolio investments net of financing at 1 January</b>		<b>848,807</b>	<b>750,970</b>
<b>Portfolio investments net of financing at 31 December</b>	25(b)	<b>988,638</b>	<b>848,807</b>

# **Allchurches Trust Limited**

## **Accounting Policies**

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### **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 2005 Statement of Recommended Practice issued by the Association of British Insurers (ABI SORP) and the Statement of Recommended Practice (Charities SORP) "Accounting and Reporting by Charities". Where it provides a more appropriate presentation of financial statements, the ABI SORP has been adopted.

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.

### **Changes in accounting policies**

The following Financial Reporting Standards (FRS) have been early adopted in these financial statements:

FRS 23, The Effects Of Changes In Foreign Exchange Rates

FRS 25, Financial Instruments: Disclosure and Presentation

FRS 26, Financial Instruments: Measurement

In addition, FRS 17, Retirement Benefits, has been fully implemented in these financial statements.

The group has also reviewed its existing accounting policies to bring them in line with the accounting policies of its subsidiaries, which are prepared under International Financial Reporting Standards (IFRS), where such accounting policies are compatible with UK Generally Accepted Accounting Practice (UK GAAP). Such accounting policies are considered to be more relevant, and reduce the extent of inconsistency between group companies.

The effect of the above changes in accounting policies is detailed in note 18(b).

FRS 27, Life Assurance, has also been adopted in these financial statements. The implementation of this standard has had no impact on the profit and loss account or balance sheet.

### **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.

# Allchurches Trust Limited

## Accounting Policies

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### Foreign exchange

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

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

### 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 financial statements 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.

### 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 profit and loss account, 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 profit and loss account but are reported as deposits to investment contract liabilities in the balance sheet.

### Revenue from investment contracts

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

# **Allechurches Trust Limited**

## **Accounting Policies**

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### **Claims**

Long term insurance business claims reflect the cost of all claims arising during the year and are recognised when payment is due. For investment contracts, claims are not included in the profit and loss account 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 provision is 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. The change in this provision is taken to the profit and loss account in order that revenue is recognised over the period of risk.

##### **(iii) 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.

##### **(iv) 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 provisions*

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

### **Claims**

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

# Allechurches Trust Limited

## Accounting Policies

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### **Insurance contract liabilities (continued)**

#### *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.

### **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 group's unitised investment funds at the balance sheet date.

### **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.

### **Investments**

#### *Land and buildings*

Land and buildings, including properties occupied by the group, are stated at open market value as determined by external qualified surveyors.

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.

#### *Other financial investments*

The group classifies its investments as either financial assets designated at fair value through profit and loss or loans and receivables.

Purchases and sales of investments are recognised on the trade date, which is the date that the group commits to purchase or sell the assets, at their fair values less transaction costs. Investments classified at fair value through profit and loss are subsequently carried at fair value, with changes in fair value included in the profit and loss account in the period in which they arise.

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

Loans and receivables, 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 profit and loss account.

### **Derivative financial instruments**

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

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 FRS 26 rules and are therefore treated as derivatives held for trading. Their fair value gains and losses are recognised immediately in investment return.



# Allchurches Trust Limited

## Accounting Policies

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### **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.

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.

### **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.

### **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.

### **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. 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.

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

# Allchurches Trust Limited

## Accounting Policies

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### **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 profit and loss account 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 balance sheet. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Contributions in respect of defined contribution schemes are recognised as an expense in the profit and loss account 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 statement of total recognised gains and losses. 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.

### **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.

# Allchurches Trust Limited

## Notes to the Financial Statements

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### **1 Insurance risk**

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

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

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.

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.

### **(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.

# Allchurches Trust Limited

## Notes to the Financial Statements

### 1 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:

Group	Territory	Type of risk				Total £000
		Property £000	Liability £000	Motor £000	Accident £000	
United Kingdom	Gross	184,969	59,622	21,480	6,368	272,439
	Net	101,520	51,931	19,321	6,116	178,888
Australia and New Zealand	Gross	25,328	12,734	11,118	1,298	50,478
	Net	12,819	10,789	7,705	1,204	32,517
Canada	Gross	10,932	4,284	-	-	15,216
	Net	8,533	3,778	-	-	12,311
Other overseas	Gross	5,396	1,931	1,071	103	8,501
	Net	2,564	1,726	993	99	5,382
Total	Gross	226,625	78,571	33,669	7,769	346,634
	Net	125,436	68,224	28,019	7,419	229,098

### 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.

#### 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.

# Allechurches Trust Limited

## Notes to the Financial Statements

### 1 Insurance risk (continued)

#### Sources of uncertainty in the estimation of future claim payments (continued)

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 20 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; and
- changes in legislation and court attitudes to compensation, which may apply retrospectively.

#### 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.

### (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:

Insurance liabilities as at 31 December 2005	With-profit fund £000	Non-profit fund £000	Total £000
Life assurance	84,898	6,201	91,099
Pensions assurance	39,061	202	39,263
Pensions annuities in payment	-	60,011	60,011
Life annuities in payment	-	22,936	22,936
Other life	-	2,100	2,100
Permanent health insurance	-	556	556
<b>Total</b>	<b>123,959</b>	<b>92,006</b>	<b>215,965</b>
Investment products	-	48,846	48,846
<b>Total technical provisions excluding outstanding claims, net of reinsurance</b>	<b>123,959</b>	<b>140,852</b>	<b>264,811</b>

# Allchurches Trust Limited

## Notes to the Financial Statements

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### 1 Insurance risk (continued)

#### Frequency and severity of claims (continued)

##### *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 less 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 client 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 clients. 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' funds.

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 fund for future appropriations, 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 factored the impact of policyholders' behaviour into the assumptions used to measure 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.

# Allchurches Trust Limited

## Notes to the Financial Statements

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### 1 Insurance risk (continued)

#### Sources of uncertainty in the estimation of future benefit payments and premium receipts

##### *Long term insurance contracts*

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

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

##### *Group life yearly renewable contracts*

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

#### Options and guarantees

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

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

##### *With-profit guaranteed annuity options*

The deposit administration group pension contracts contain an option for the pensions for individual members to be purchased using a guaranteed annuity rate. Notice has been given to withdraw this option with effect from 1 January 2008.

The difference between the purchase price of the pension at current interest rates and the amount withdrawn from the contract represents the cost of the guarantee. An additional liability of £0.8 million has been set up to cover all such costs until the end of 2007. If interest rates were 1% lower than currently, this liability would increase to £1.4 million.

##### *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 policy (its asset share) at maturity or at the point of surrender, represents the cost of the guarantees. For maturities in 2006, this cost is expected to total £0.4 million and for surrenders it is expected to total £0.1 million. 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 £0.9 million and £0.3 million respectively.

## Allchurches Trust Limited

### Notes to the Financial Statements

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#### 1 Insurance risk (continued)

##### Options and guarantees (continued)

###### *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:

- on partial withdrawals of the bond not exceeding 7.5% per annum of the original amount invested; and
- on withdrawals from the deposit administration contract for the purchase of immediate annuities for individual members.

The cost of the guarantee is determined by the relationship between the total benefits on the contract and the total asset share when applied to the amount of the withdrawal. If withdrawals were made on all contracts up to the maximum level for the no MVR guarantee, then the total cost in 2006 is expected to total £0.1 million. 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 £0.3 million.

###### *With-profit guaranteed regular bonus rates*

Until 31 December 2008, the deposit administration group pension contracts have a guaranteed regular bonus rate of 3% per annum. The cost of this guarantee is incorporated within the expected costs of the no MVR guarantee and the guaranteed annuity options. It has not been deemed necessary to hold additional reserves in excess of the basic policyholder liabilities for this guarantee.



# Allchurches Trust Limited

## Notes to the Financial Statements

### 2 Financial risk

The group is exposed to financial risk through its financial assets, financial liabilities (which includes investment contracts and borrowings), 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.

#### (a) Interest rate risk

The table below summarises the effective interest rate and maturity dates at the balance sheet date for those financial assets and financial liabilities that are exposed to interest rate risk. Financial assets and liabilities at fair value through profit and loss are excluded as any interest rate risk is already factored into the carrying amount.

Group	Effective interest rate %	Maturing within:			Total £000
		1 year or less £000	2-5 years £000	More than 5 years £000	
<b>As at 31 December 2005</b>					
<b>Financial assets not at fair value through profit and loss:</b>					
Mortgage and other loans	5.9	67	1,469	17,127	18,663
Other assets including insurance receivables	6.2	20,970	-	-	20,970
Cash and cash equivalents	3.8	178,429	-	-	178,429
		<u>199,466</u>	<u>1,469</u>	<u>17,127</u>	<u>218,062</u>
<b>Financial liabilities at amortised cost:</b>					
13% Debenture Stock 2018	13.0	-	-	6,000	6,000
Corporate business loans	5.3	5,000	11,450	-	16,450
Finance lease obligations	9.5	294	1,279	-	1,573
Non-profit long term business contract provisions	n/a	9,377	27,648	54,980	92,005
		<u>14,671</u>	<u>40,377</u>	<u>60,980</u>	<u>116,028</u>
<b>As at 31 December 2004</b>					
<b>Financial assets not at fair value through profit and loss:</b>					
Mortgage and other loans	6.2	66	1,375	18,601	20,042
Other assets including insurance receivables	6.5	20,405	-	-	20,405
Cash and cash equivalents	3.7	182,644	-	-	182,644
		<u>203,115</u>	<u>1,375</u>	<u>18,601</u>	<u>223,091</u>
<b>Financial liabilities at amortised cost:</b>					
13% Debenture Stock 2018	13.0	-	-	6,000	6,000
Corporate business loan	5.5	-	19,250	-	19,250
Redeemable preference shares in subsidiary undertaking	10.0	3,000	-	-	3,000
Finance lease obligations	9.5	430	1,013	-	1,443
Non-profit long term business contract provisions	n/a	10,396	31,248	53,978	95,622
		<u>13,826</u>	<u>51,511</u>	<u>59,978</u>	<u>125,315</u>

# Allchurches Trust Limited

## Notes to the Financial Statements

### 2 Financial risk (continued)

	Effective interest rate %	Maturing within:			Total £000
		1 year or less £000	2-5 years £000	More than 5 years £000	
<i>Parent</i>					
<b>As at 31 December 2005</b>					
<b>Financial assets not at fair value through profit and loss:</b>					
Cash and cash equivalents	4.3	5,750	-	-	5,750
		5,750	-	-	5,750
<b>As at 31 December 2004</b>					
<b>Financial assets not at fair value through profit and loss:</b>					
Cash and cash equivalents	4.6	2,465	-	-	2,465
		2,465	-	-	2,465

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

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.

#### *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 (e.g. 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 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 1(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 for these contracts.

### **(b) Credit risk**

The group has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the group is exposed to credit risk are:

- reinsurers' share of insurance liabilities (excluding provision for unearned premiums) and amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance intermediaries and policyholders; and
- corporate bond counterparty default.

The carrying amount of financial assets represents the group's maximum exposure to credit risk.

The group structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty. Limits on the level of credit risk are regularly reviewed.

# Allchurches Trust Limited

## Notes to the Financial Statements

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### 2 Financial risk (continued)

#### (b) Credit risk (continued)

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 publishes 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 current 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.

#### (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 adequate 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.

#### (d) Currency risk

The group operates internationally and its exposures to foreign exchange risk arise primarily with respect to the US dollar, the Australian dollar, the Canadian dollar and the Euro. 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 period-end date.

#### (e) Price risk

The group is exposed to equity securities price risk because of investments held by the group and classified at fair value through profit and loss. The group mitigates this risk through the use of options which would limit losses in the event of a fall in equity markets.

# Allchurches Trust Limited

## Notes to the Financial Statements

### 3 Exchange rates

	2005		2004	
The principal rates of exchange used for translation are:	Average	Closing	Average	Closing
Canada	C\$2.20	C\$2.01	C\$2.38	C\$2.30
Republic of Ireland	€1.46	€1.46	€1.47	€1.41
Australia	AUS\$2.38	AUS\$2.34	AUS\$2.49	AUS\$2.45

### 4 Segmental analysis

#### (a) General business premiums

	2005		2004	
	Gross	Net	Gross (Restated)	Net (Restated)
	£000	£000	£000	£000
Direct:				
Accident	7,769	7,419	7,167	6,917
Motor	33,669	28,019	28,610	25,915
Property	179,483	93,208	190,234	98,520
Liability	78,571	68,224	73,366	65,296
	<u>299,492</u>	<u>196,870</u>	<u>299,377</u>	<u>196,648</u>
Reinsurance accepted and London market	47,142	32,228	44,643	30,305
Total	<u>346,634</u>	<u>229,098</u>	<u>344,020</u>	<u>226,953</u>

#### Geographical analysis - on the basis of location of office

United Kingdom	272,439	178,888	268,650	172,037
Australia and New Zealand	50,478	32,517	48,899	31,279
Canada	15,216	12,311	16,943	17,493
Other overseas	8,501	5,382	9,528	6,144
Total	<u>346,634</u>	<u>229,098</u>	<u>344,020</u>	<u>226,953</u>

#### (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.

# Allchurches Trust Limited

## Notes to the Financial Statements

### 4 Segmental analysis (continued)

<b>(b) Long term business premiums (continued)</b>		<b>2005</b>	<b>2004</b>
			<b>(Restated)</b>
<b>The analysis of long term business premiums written before reinsurance is:</b>		<b>£000</b>	<b>£000</b>
<b>Life insurance business</b>			
- Single premiums		<b>4,301</b>	4,035
- Regular premiums		<b>4,645</b>	5,456
<b>Annuity business</b>			
- Single premiums		<b>1,976</b>	402
<b>Pension business</b>			
<b>Non-linked contracts</b>			
- Single premiums		<b>663</b>	2,828
- Regular premiums		<b>3,326</b>	2,999
<b>Permanent health insurance</b>			
		<b>141</b>	173
		<b>15,052</b>	15,893
<b>Gross new annualised regular premiums</b>			
<b>Life insurance</b>			
		<b>37</b>	252
<b>Pensions</b>			
		<b>413</b>	344
		<b>450</b>	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.

<b>(c) Profit before taxation</b>		<b>2005</b>	<b>2004</b>
			<b>(Restated)</b>
		<b>£000</b>	<b>£000</b>
United Kingdom		<b>81,154</b>	58,454
Australia and New Zealand		<b>9,082</b>	6,616
Canada		<b>(243)</b>	553
Other overseas		<b>1,290</b>	108
Total		<b>91,283</b>	65,731
<b>(d) Net assets</b>			
United Kingdom		<b>192,886</b>	142,353
Australia and New Zealand		<b>22,056</b>	14,849
Canada		<b>22,143</b>	19,345
Other overseas		<b>433</b>	(589)
Total		<b>237,518</b>	175,958

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

### **(e) Total assets**

Of the total assets shown on page 17, £307,519,000 (2004: £292,317,000) are attributable to the long term business fund.

# Allchurches Trust Limited

## Notes to the Financial Statements

### 5 Investment return

	2005		2004	
	General business	Long term business	General business (Restated)	Long term business (Restated)
	£000	£000	£000	£000
Land and buildings	1,660	174	1,334	9
Other investments	29,201	14,168	20,805	13,099
Realised investment gains	-	55	1,218	14,427
Investment income	30,861	14,397	23,357	27,535
Investment expenses and charges:				
Investment management expenses, including interest	2,645	760	2,596	677
Realised investment losses	6,392	-	-	-
Investment expenses and charges	9,037	760	2,596	677
Net investment return	21,824	13,637	20,761	26,858

Investment management expenses include debenture interest payable of £780,000 (2004: £780,000), corporate business loan interest payable of £269,000 (2004: £258,000) and redeemable preference share dividends of £150,000 (2004: £300,000).

### 6 Expenses

	2005		2004	
	General business	Long term business	General business (Restated)	Long term business (Restated)
	£000	£000	£000	£000
<b>(a) Net operating expenses</b>				
Commission paid on direct business	46,670	124	50,053	17
Other acquisition costs	14,510	2,819	13,843	3,054
Change in deferred acquisition costs	138	(152)	312	304
Administrative expenses	43,242	1,838	42,281	2,950
Reinsurance commissions and profit participation	(37,503)	(690)	(36,614)	(106)
	67,057	3,939	69,875	6,219
<b>(b) Other charges</b>				
Amortisation of goodwill	418	-	418	-
Non-insurance subsidiary expenses	1,520	-	407	-
Premium on redesignation of redeemable preference shares	418	-	-	-
	2,356	-	825	-

# Allchurches Trust Limited

## Notes to the Financial Statements

### 7 Operating profit

	2005		2004	
	General business	Long term business	General business (Restated)	Long term business (Restated)
	£000	£000	£000	£000
<b>Operating profit has been arrived at after charging/(crediting):</b>				
Net foreign exchange (gains)/losses	(1,534)	(287)	1,947	171
Depreciation - owned assets	2,871	221	3,670	195
- leased assets	338	93	376	95
Fair value gains on investments at fair value through profit and loss	26,497	24,824	11,579	13,327
Interest payments under lease purchase contracts	129	28	105	21
Auditors' remuneration - parent only	2	-	2	-
- group, including parent	717	115	451	56
Non audit fees - parent only	-	-	-	-
- group UK, including parent	66	22	57	5

### 8 Employee information

The company has no employees (2004: nil). The average monthly number of employees, including executive directors, employed by the group during the year, by geographical location was as follows:

	2005		2004	
	General business No.	Long term business No.	General business No.	Long term business No.
United Kingdom	788	71	770	80
Australia and New Zealand	114	-	108	-
Canada	55	-	60	-
Republic of Ireland	17	-	17	-
	<b>974</b>	<b>71</b>	<b>955</b>	<b>80</b>

	2005	2004 (Restated)
	£000	£000
Wages and salaries	32,804	29,174
Social security costs	2,555	2,156
Pension costs - defined contribution plans	473	282
Pension costs - defined benefit plans	5,603	5,499
Other post-employment benefits	748	689
	<b>42,183</b>	<b>37,800</b>

### 9 Directors' emoluments

No trustee received emoluments or reimbursed expenses from Allchurches Trust Limited during the year (2004: £nil). Certain trustees do however receive emoluments in their capacity as non-executive directors of subsidiary undertakings, as follows:

	2005	2004
	£	£
The aggregate emoluments of the trustees in respect of services as non-executive directors of subsidiary undertakings	48,500	45,212
Highest paid director's fees	41,500	38,596

No trustee was a member of the group's defined benefit pension scheme during the year (2004: nil).

# Allchurches Trust Limited

## Notes to the Financial Statements

### 10 Taxation

	Long term business technical account		Non-technical account	
	2005 £000	2004 (Restated) £000	2005 £000	2004 (Restated) £000
UK corporation tax for the current financial year	688	84	11,486	13,056
Overseas tax	-	-	3,160	2,825
	<b>688</b>	<b>84</b>	<b>14,646</b>	<b>15,881</b>
Deferred tax	<b>1,300</b>	<b>(950)</b>	<b>9,912</b>	<b>4,872</b>
	<b>1,988</b>	<b>(866)</b>	<b>24,558</b>	<b>20,753</b>

UK corporation tax in the long term business technical account has been calculated at rates between 20% and 30% (2004: 20% and 30%) in accordance with the rates applicable to long term insurance business.

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	
	2005 £000	2004 (Restated) £000
Profit on ordinary activities before tax	<b>91,283</b>	65,731
Tax on profit on ordinary activities at standard rate	<b>27,385</b>	19,719
<i>Factors affecting charge for the year:</i>		
Depreciation for the period in excess of capital allowances	(379)	32
Unrealised investment movements and other timing differences	(8,230)	(3,630)
Dividends received	(1,050)	(261)
Expenses not deductible for tax purposes	(883)	871
Tax paid at non-standard rates	(1,687)	(996)
Tax relief on gift aid	-	32
Adjustments to tax charge in respect of prior years	(510)	114
Total actual amount of current tax	<b>14,646</b>	<b>15,881</b>

### 11 Charitable distributions

An analysis of current year charitable distributions by company and group is given below.

	Company		Group	
	Distributions £000	Donations No.	Distributions £000	Donations No.
Dioceses	4,330	152	4,330	152
Cathedrals	266	92	266	92
Parishes and other charities	593	792	629	817
Educational charities	-	-	144	14
	<b>5,189</b>	<b>1,036</b>	<b>5,369</b>	<b>1,075</b>

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 ten years a total of £44.8 million (2004: £41.8 million) has been provided by group companies for church and charitable purposes.



# Allchurches Trust Limited

## Notes to the Financial Statements

12 Goodwill	2005 £000	2004 £000
Carrying value at 1 January	1,671	2,089
Amortisation	(418)	(418)
Carrying value at 31 December	<u>1,253</u>	<u>1,671</u>

Goodwill arose on the acquisition of a subsidiary undertaking.

13 Investments	2005			2004		
Group	General business £000	Long term business £000	Total £000	General business £000	Long term business £000	Total £000
<b>Freehold land and buildings</b>						
- occupied by the group	3,036	475	3,511	2,566	450	3,016
- other	<u>26,411</u>	<u>3,548</u>	<u>29,959</u>	<u>20,793</u>	<u>1,850</u>	<u>22,643</u>
	<u>29,447</u>	<u>4,023</u>	<u>33,470</u>	<u>23,359</u>	<u>2,300</u>	<u>25,659</u>

### Other financial investments

Financial investments summarised by measurement category are as follows:

#### Financial investments at fair value through profit and loss

##### Equity securities:

- listed	159,279	147,554	306,833	130,501	124,648	255,149
- unlisted	19,535	-	19,535	17,948	-	17,948

##### Debt securities:

- government bonds	223,933	62,667	286,600	163,846	54,524	218,370
- listed	83,890	50,853	134,743	75,822	47,414	123,236
- unlisted	<u>312</u>	<u>312</u>	<u>624</u>	<u>258</u>	<u>258</u>	<u>516</u>
	<u>486,949</u>	<u>261,386</u>	<u>748,335</u>	<u>388,375</u>	<u>226,844</u>	<u>615,219</u>

##### Loans and receivables

Loans secured by mortgages	16,069	25,803	41,872	16,169	31,008	47,177
Other loans	<u>8,880</u>	<u>102</u>	<u>8,982</u>	<u>3,205</u>	<u>153</u>	<u>3,358</u>
	<u>24,949</u>	<u>25,905</u>	<u>50,854</u>	<u>19,374</u>	<u>31,161</u>	<u>50,535</u>

Total other financial investments	<u>511,898</u>	<u>287,291</u>	<u>799,189</u>	<u>407,749</u>	<u>258,005</u>	<u>665,754</u>
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Certain properties held by subsidiaries but occupied by the group, were revalued at 31 December 2005. All other owner occupied properties were revalued at 31 December 2003. Other properties were revalued at 31 December 2005. Valuations were carried out by Cluttons, an external firm of Chartered Surveyors, and were made on the basis of open market value.

All other financial investments are non-current, except for options with a fair value of £140,000 (2004: £234,000), that are classified as held for trading. Equity and debt securities are designated by the group to be measured at fair value through profit and loss. The directors consider that the carrying value of loans and receivables approximates to their fair value.

# Allchurches Trust Limited

## Notes to the Financial Statements

### 13 Investments (continued)

Parent

Shares in subsidiary  
undertakings  
2005 2004  
(Restated)  
£000 £000

Cost:

At 1 January and 31 December

50 50

Revaluation:

At 1 January

170,615 130,552

Revaluation of group undertakings

61,147 40,063

At 31 December

231,762 170,615

Net book value:

At 31 December

231,812 170,665

At 1 January

170,665 130,602

The above investments are unlisted.

### 14 Group debtors arising out of insurance operations

#### (a) Group debtors arising out of direct insurance operations

	2005			2004		
	General business £000	Long term business £000	Total £000	General business £000	Long term business £000	Total £000
Policyholders	16,491	294	16,785	15,816	159	15,975
Intermediaries	36,667	-	36,667	35,560	-	35,560
	53,158	294	53,452	51,376	159	51,535

#### (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.

# Allchurches Trust Limited

## Notes to the Financial Statements

### 15 Tangible assets

<i>Group</i>	Computer equipment £000	Motor vehicles £000	Office equipment £000	Total £000
Cost:				
At 1 January 2005 (restated)	20,212	2,820	3,410	26,442
Additions	2,099	1,011	1,215	4,325
Exchange movements	112	10	84	206
Disposals	(282)	(1,087)	(166)	(1,535)
At 31 December 2005	22,141	2,754	4,543	29,438
Depreciation:				
At 1 January 2005 (restated)	15,197	1,080	2,426	18,703
Provided in the year	2,654	542	327	3,523
Exchange movements	65	5	23	93
Disposals	(236)	(657)	(138)	(1,031)
At 31 December 2005	17,680	970	2,638	21,288
Net book value at 31 December 2005				
General business	3,981	1,491	1,904	7,376
Long term business	480	293	1	774
	4,461	1,784	1,905	8,150
Net book value at 1 January 2005 (restated)				
General business	4,571	1,454	982	7,007
Long term business	444	285	3	732
	5,015	1,739	985	7,739

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

# Allchurches Trust Limited

## Notes to the Financial Statements

### 16 Pension asset and retirement benefit obligations

#### *Defined benefit pension plans*

The group's main scheme is a non-contributory defined benefit scheme for UK employees. The assets of the scheme are held separately from those of the group by the trustees of Ecclesiastical Insurance Office plc Staff Retirement Benefit Fund. Pension costs for this scheme are determined, on the basis of triennial valuations, by an independent qualified actuary using the projected unit credit method. The most recent valuation was at 31 December 2004. The 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. 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 Ansvar subsidiaries operate separate schemes to the main group scheme. In the UK Ansvar operates a non-contributory defined benefit scheme, the contributions to which are determined with the advice of independent qualified actuaries on the basis of triennial valuations. In Australia, EIG-Ansvar operates, through an AMP Masterplan, a defined contribution plan that complies with the Superannuation Industry (Supervision) Act, 1993.

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 2005. The financial assumptions used, which are the average for all schemes weighted according to the value of each schemes liabilities, were as follows:

	2005	2004	2003
Inflation	3.00%	2.75%	2.75%
Increase in salary	4.50%	4.00%	4.00%
Increase in pensions in payment	3.00%	2.75%	2.75%
Discount rate for scheme liabilities	4.75%	5.25%	5.50%

The amounts charged to the consolidated profit and loss account and consolidated statement of total recognised gains and losses for the year ended 31 December 2005 are shown below:

	2005 £000	2004 £000
<i>Service costs</i>		
Current service costs	5,497	4,510
Past service costs	106	989
Total, included in net operating expenses	5,603	5,499
<i>Other finance income/costs</i>		
Expected return on scheme assets	8,352	7,118
Interest cost on scheme liabilities	(5,770)	(5,128)
Total, included in other finance income	2,582	1,990
<i>Actuarial gains and losses</i>		
Difference between actual and expected return on scheme assets	14,238	5,495
Impact of changes in the valuation basis	(24,765)	(12,011)
Experience (losses)/gains arising on scheme liabilities	(1,780)	3,415
Total actuarial losses	(12,307)	(3,101)
<i>Movement in surplus during the year</i>		
Surplus at 1 January	9,370	6,776
Current service cost	(5,497)	(4,510)
Contributions	7,867	9,206
Past service cost	(106)	(989)
Other finance income	2,582	1,990
Actuarial losses	(12,307)	(3,101)
Exchange differences	(1)	(2)
Surplus at 31 December	1,908	9,370

# Allchurches Trust Limited

## Notes to the Financial Statements

### 16 Pension asset and retirement benefit obligations (continued)

History of experience gains and losses

	2005	2004	2003	2002
<i>Difference between the expected and actual return on scheme assets:</i>				
Amount £000	14,238	5,495	9,545	(14,597)
Percentage of scheme assets	9.61%	4.55%	9.41%	17.35%

*Experience gains and losses on scheme liabilities:*

Amount £000	(1,780)	3,415	(933)	(1,497)
Percentage of the present value of the scheme liabilities	1.22%	3.07%	0.99%	1.86%

*Total amount recognised in statement of total recognised gains and losses:*

Amount £000	(12,307)	(3,101)	3,354	(16,094)
Percentage of the present value of the scheme liabilities	8.41%	2.78%	3.54%	20.03%

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

	Value at 2005 £000	Expected rate of return	Value at 2004 (Restated) £000	Expected rate of return	Value at 2003 (Restated) £000	Expected rate of return
Equities	90,765	7.50%	66,824	8.00%	57,027	8.00%
Bonds	36,001	4.75%	30,114	5.25%	28,195	5.50%
Other	21,400	4.50%	23,832	4.50%	16,230	4.00%
Total market value of assets	148,166		120,770		101,452	
Present value of scheme liabilities	(146,258)		(111,400)		(94,676)	
Net surplus in the schemes	1,908		9,370		6,776	
Deferred tax liability	(550)		(2,813)		(2,036)	
Net pension asset	1,358		6,557		4,740	

### Post-employment medical benefits

The group 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 main actuarial assumption is a long term increase in health costs of 7.5% (2004: 7.5%)

The amounts charged to the consolidated profit and loss account and consolidated statement of total recognised gains and losses for the year ended 31 December 2005 are shown below.

	2005 £000	2004 £000
<i>Service costs</i>		
Current service costs, included in net operating expenses	748	689
<i>Other finance income/costs</i>		
Interest cost on scheme liabilities, included in other finance income	314	288
<i>Actuarial gains and losses</i>		
Impact of changes in the valuation basis	(752)	(578)
Experience gains arising on scheme liabilities	600	725
Total actuarial (losses)/gains	(152)	147

# Allchurches Trust Limited

## Notes to the Financial Statements

<b>16 Pension asset and retirement benefit obligation (continued)</b>	<b>2005</b>	<b>2004</b>
	<b>£000</b>	<b>£000</b>
<i>Movement in obligation during the year</i>		
At 1 January	5,986	5,241
Current service cost	748	689
Contributions	(97)	(85)
Other finance income	314	288
Actuarial losses/(gains)	152	(147)
At 31 December	<u>7,103</u>	<u>5,986</u>

The amounts recognised in the balance sheet are determined as follows:

Present value of unfunded obligations	7,103	5,986
Related deferred tax asset	<u>(2,131)</u>	<u>(1,796)</u>
Net obligations in the balance sheet	<u>4,972</u>	<u>4,190</u>

## 17 Reserves

	<b>Revaluation reserve £000</b>	<b>Translation reserve £000</b>	<b>General reserve £000</b>	<b>Profit and loss account £000</b>	<b>Total £000</b>
<i>Group</i>					
As previously reported	-	-	10,000	163,388	173,388
Prior year adjustments	-	(24)	-	2,594	2,570
Balance at 1 January	-	(24)	10,000	165,982	175,958
Currency translation differences	-	3,769	-	-	3,769
Actuarial losses relating to pension asset	-	-	-	(12,307)	(12,307)
Movement on deferred tax relating to pension asset	-	-	-	3,669	3,669
Actuarial losses relating to other retirement benefits	-	-	-	(152)	(152)
Movement on deferred tax relating to other retirement benefits	-	-	-	46	46
Reserve transfers	-	-	(10,000)	10,000	-
Transfer from profit and loss account	-	-	-	62,460	62,460
Premium on redesignation of preference shares	-	-	-	715	715
Premium on issue of preference shares	-	-	-	3,360	3,360
Balance at 31 December	-	3,745	-	233,773	237,518

The premium on redesignation of preference shares and premium on issue of preference shares are disclosed as other movements in the statement of financial activities.

<i>Parent</i>					
As previously reported	168,045	-	-	5,343	173,388
Prior year adjustment	2,570	-	-	-	2,570
Balance at 1 January	170,615	-	-	5,343	175,958
Revaluation of group undertakings	61,147	-	-	-	61,147
Transfer from income and expenditure account	-	-	-	413	413
Balance at 31 December	<u>231,762</u>	-	-	<u>5,756</u>	<u>237,518</u>

# Allechurches Trust Limited

## Notes to the Financial Statements

### 18 Reconciliation of movements in group shareholders' funds

(a) Movement for the financial year	2005	2004 (Restated)
	£000	£000
Profit for the financial year	62,460	42,387
Other recognised gains and losses relating to the year	(4,975)	(2,114)
Premium on redesignation of preference shares	715	-
Premium on issue of preference shares	3,360	-
Net movement in shareholders' funds	61,560	40,273
Opening shareholders' funds as previously stated	173,388	135,599
Prior year adjustments (see note 18(b))	2,570	86
Opening shareholders' funds as restated	175,958	135,685
Closing shareholders' funds	237,518	175,958

### (b) Prior year adjustments

The 2005 group financial statements of Ecclesiastical Insurance Office plc and Ecclesiastical Insurance Group plc, subsidiary undertakings of the company, have been prepared in accordance with International Financial Reporting Standards (IFRS), as these companies have equity or debt listed on a regulated market. The company, being a charity, is not permitted to adopt IFRS, in accordance with the provisions of the Companies Act 1985. The company has therefore reviewed its existing accounting policies to bring them in line with the IFRS accounting policies of its subsidiaries where such accounting policies are compatible with UK Generally Accepted Accounting Practice (UK GAAP). Such accounting policies are considered to be more relevant, and reduces the extent of inconsistency between group companies.

In order to achieve consistency of accounting treatment with subsidiary companies, the following UK accounting standards, which are based on IFRSs, have been early adopted:

FRS 23, The Effects Of Changes In Foreign Exchange Rates

FRS 25, Financial Instruments: Disclosure and Presentation

FRS 26, Financial Instruments: Measurement

In addition, FRS 17, Retirement Benefits, has been fully implemented in these financial statements.

The impact of the above changes in accounting policies on the prior years' results is detailed below. It is not practicable to disclose the impact on the current year results as the expense and associated delay in the production of such information would outweigh the benefit of such disclosure.

### (i) Investment changes

Previously, investments were measured at current value with gains and losses reflected in the profit and loss account except for certain debt and other fixed income securities which were held at amortised cost. FRS 26 restricts the use of amortised cost and, as a result, the group's investments in debt and equity securities are valued at fair value. The fair value for listed investments is calculated using bid prices rather than the mid-market value used previously. The net impact of the above change in valuation basis is an increase in profit and loss reserves of £3,098,000 as at 31 December 2004 (1 January 2004: £286,000 decrease). Profit after tax increases by £3,376,000 for the year ended 31 December 2004.

### (ii) Insurance changes

Under FRS 26 contracts issued must be classified for accounting purposes as either insurance or investment contracts, depending on whether significant insurance risk exists. All the group's general insurance products are classified as insurance contracts. Long term business products are classified as insurance contracts, participating investment contracts (being those contracts containing a discretionary participating feature as defined by FRS 26) or non-participating investment contracts. The insurance and participating investment contracts continue to be accounted for under the group's existing accounting policies. The non-participating investment contracts are required to be accounted for under FRS 26, and the technical provisions in respect of these contracts are shown separately on the balance sheet as investment contract liabilities.

# Allchurches Trust Limited

## Notes to the Financial Statements

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### **(ii) Insurance changes (continued)**

The majority of the group's contracts classified as non-participating investment contracts are unit-linked contracts. Prior to adoption of FRS 26, the liability under unit-linked contracts was measured by reference to the market value of the underlying linked assets plus a prudential regulatory reserve. Under FRS 26, these liabilities continue to be measured by reference to the value of the underlying assets, but excludes any prudential reserves. This results in an increase in profit and loss reserves of £1,663,000 at 31 December 2004 (1 January 2004: £2,382,000). Profit after tax decreases by £719,000 for the year ended 31 December 2004.

Revenue arising from investment contracts must be recognised as the services are provided over the life of the contract, with directly attributable incremental acquisition costs also deferred. Also, any front end fees received on non-participating investment contracts which relate to services to be provided in future periods are included within the deferred income liability in the balance sheet. Prior to adoption of FRS 26, front end fees were recognised when received hence no such liability was recognised. The net impact of these adjustments is a decrease in profit and loss reserves of £756,000 at 31 December 2004 (1 January 2004: £810,000). Profit after tax increases by £54,000 for the year ended 31 December 2004.

### **(iii) Financial instruments**

Prior to adoption of FRS 25, minority interests included third party interests in a subsidiary's ordinary shares and preference shares, both redeemable and irredeemable. On adoption of FRS 25, redeemable preference shares are classified as liabilities rather than equity, as such shares carry an obligation to transfer cash on redemption. Minority interests are third party interests in the equity of subsidiaries. Hence minority interests do not include third party interests in the redeemable preference shares of subsidiaries. Such third party interests are classified as liabilities of £3,000,000 at 31 December 2004 (1 January 2004: £3,077,000).

The profit and loss account presentation of redeemable preference dividends follows the balance sheet presentation of such shares, and are included as interest payable within investment expenses rather than as a distribution of profits. Third parties' share of such dividends are therefore included in investment expenses rather than minority interests in the profit and loss account. This results in a decrease of £300,000 in profit after tax for the year ended 31 December 2004, although this reclassification has no impact on profit and loss reserves.

### **(iv) Translation of foreign operations**

Foreign entities' profit and loss accounts, previously translated at the closing exchange rate, are now translated at the average exchange rate. This results in a decrease in profit after tax for the year ended 31 December 2004 of £95,000. Translation differences arising on consolidation of foreign operations are now recognised in a separate reserve, called the translation reserve.

### **(v) Employee Benefits**

The group has adopted FRS 17 in full in these financial statements. As a result, a net pension asset and an obligation in respect of other retirement benefits has been recognised in the balance sheet. This results in an increase of £3,176,000 in profit and loss reserves at 31 December 2004 (1 January 2004: £1,197,000), and an increase of £4,937,000 in profit after tax for the year ended 31 December 2004. See note 16 for further details.

### **(vi) Taxation**

Under UK GAAP, the discounting of deferred tax balances is optional under FRS 19, Deferred Tax. The group previously discounted these balances. Group companies whose financial statements are prepared under IFRS are not permitted to discount deferred tax, hence the group accounting policy has been amended to recognise such balances on an undiscounted basis.

The changes to deferred tax arise from the removal of discounting, changes to the valuation of the group's assets and liabilities and presentational changes to disclosure of tax assets and liabilities. Additionally, the adjustments under FRS 26 to investment valuation impact on the current tax liability calculation. The net impact of these tax adjustments is a decrease in profit and loss reserves of £5,038,000 at 31 December 2004 (1 January 2004: £2,755,000). Profit after tax decreases by £3,146,000 for the year ended 31 December 2004.



## **Allchurches Trust Limited**

### **Notes to the Financial Statements**

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#### **(vii) Other adjustments**

The following adjustments have been made to bring group accounting policies in line with the IFRS accounting policies of subsidiaries where such accounting policies are compatible with UK GAAP:

Previously, land and buildings were valued net of realisation costs. The value of land and buildings has been amended to market value, consistent with IFRS measurement principles. This results in an increase in profit and loss reserves of £481,000 at 31 December 2004 (1 January 2004: £397,000) and an increase in profit after tax for the year ended 31 December 2004 of £84,000.

A dismantling provision is recognised in respect of costs to make good leased property at the end of the lease term, with a corresponding amount included in tangible assets and subsequently depreciated. This results in a decrease in profit and loss reserves of £52,000 at 31 December 2004 (1 January 2004: £38,000) and a decrease in profit after tax for the year ended 31 December 2004 of £14,000.

Charitable grants paid, previously shown below the profit after tax line in the profit and loss account, are presented gross within expenses with a corresponding adjustment to the income tax charge. As a result, profit after tax for the year ended 31 December 2004 decreases by £4,967,000, although there is no impact on profit and loss reserves.

The following reclassifications have no impact on profit and loss reserves or profit after tax:

*Assets held to cover linked liabilities are no longer disclosed separately but have been reported within financial investments.*

Certain long term business investments, previously included in debtors, have been more appropriately included in financial investments.

Levy provisions that were included within other creditors and accruals, have been reclassified into provisions for other liabilities and charges.

Reinsurance commissions receivable, previously included in deferred acquisition costs, have been reported within accruals and deferred income.

Certain other debtors and insurance contract provisions that were previously offset, have been grossed up in the balance sheet.

#### **(viii) Parent company prior year adjustments**

Shares in subsidiary undertakings are valued at the lower of net asset value and directors' valuation and the surplus or deficit over cost arising from that valuation is taken to a revaluation reserve. The above adjustments have impacted on the valuation of shares in subsidiary undertakings resulting in an increase in reserves of £2,570,000 as at 31 December 2004 (1 January 2004: £86,000).

#### **19 Minority interests**

Minority interests comprise 8.625% Non-Cumulative Irredeemable Preference shares in Ecclesiastical Insurance Office plc.

# **Allchurches Trust Limited**

## **Notes to the Financial Statements**

### **20 Insurance liabilities and reinsurance assets**

	<b>2005</b>	<b>2004</b>
<i>Group</i>	<b>£000</b>	<b>£000</b>
<b>Gross</b>		
Claims outstanding	<b>384,460</b>	363,592
Unearned premiums	<b>166,531</b>	161,474
Long term business provision (including technical provision for linked liabilities)	<b>217,648</b>	220,099
Equalisation provision	<b>20,790</b>	17,613
<b>Total gross insurance liabilities</b>	<b>789,429</b>	762,778
<b>Recoverable from reinsurers</b>		
Claims outstanding	<b>103,566</b>	107,776
Unearned premiums	<b>45,304</b>	44,062
Long term business provision (including technical provision for linked liabilities)	<b>1,683</b>	1,185
<b>Total reinsurers' share of insurance liabilities</b>	<b>150,553</b>	153,023
<b>Net</b>		
Claims outstanding	<b>280,894</b>	255,816
Unearned premiums	<b>121,227</b>	117,412
Long term business provision (including technical provision for linked liabilities)	<b>215,965</b>	218,914
Equalisation provision	<b>20,790</b>	17,613
<b>Total net insurance liabilities</b>	<b>638,876</b>	609,755

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 £20,790,000 (2004: £17,613,000) and decreased both the balance on the general business technical account and the profit before taxation for the year by £3,177,000 (2004: £2,905,000).

# Allchurches Trust Limited

## Notes to the Financial Statements

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### 20 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 such as Fisher Lange.

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 Fisher Lange are used. 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.

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 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

The reserves for UK liability classes have been increased to reflect the sources of uncertainty referred to earlier in the notes. The uncertainty margin has been increased and the special provisions for very late reported or latent claims has also increased. The effect has been to increase gross reserves by £11,400,000 (£6,000,000 net of reinsurance).

# Allchurches Trust Limited

## Notes to the Financial Statements

### 20 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 loss or profit will be realised:

		Gross £000	Net £000
Liability	- UK	9,400	7,300
	- Overseas	3,900	3,300
Property	- UK	1,200	900
	- Overseas	1,300	600

#### (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 following table shows the development of the estimate of ultimate net claims cost for these classes across all territories.

Group	2001 £000	2002 £000	2003 £000	2004 £000	2005 £000	Total £000
Estimate of ultimate claims:						
At end of year	32,882	34,480	34,483	35,349	36,833	
One year later	32,098	29,269	30,253	34,086		
Two years later	27,680	26,140	29,712			
Three years later	26,476	25,331				
Four years later	24,417					
Current estimate of ultimate claims	24,417	25,331	29,712	34,086	36,833	150,379
Cumulative payments to date	(15,988)	(9,522)	(6,069)	(3,049)	(475)	(35,103)
Outstanding liability	8,429	15,809	23,643	31,037	36,358	115,276
Liability in respect of earlier years						40,768
Total net liability (for liability classes) included in insurance liabilities in the balance sheet						156,044

# Allchurches Trust Limited

## Notes to the Financial Statements

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### 20 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:

	With-profit	Non-profit
UK & overseas government bonds: non-linked	3.27%	3.33%
UK government: index-linked	n/a	0.59%
Corporate debt instruments	3.74%	3.64%
Equities and equity unit trusts	4.47%	1.96%
Loans secured by mortgages	n/a	6.12%
Cash and deposits	2.57%	3.48%
Land & buildings	3.84%	4.77%

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*

Both projected and actual expenses have been considered when setting the base renewal expense level. Expense inflation is set with reference to the index-linked UK government bond rates of return, and published figures for earnings inflation, and is assumed to be 4% per annum.

##### *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. The effect of these changes has been a £3,200,000 increase in liabilities.

Future improvements in longevity has been assumed for non-profit pension annuities in payment and liabilities for this class of business have been increased by £1,500,000.

Reserves for future expense overruns have been strengthened during the year by £946,000.

# Allchurches Trust Limited

## Notes to the Financial Statements

### 20 Insurance liabilities and reinsurance assets (continued)

#### (iii) Sensitivity analysis

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

Variable	Change in variable	Potential increase/ (decrease) in profit 2005 £000
Deterioration in annuitant mortality	-10%	1,500
Improvement in annuitant mortality	+10%	(2,000)
Increase in fixed interest/cash yields	+1%pa	4,500
Decrease in fixed interest/cash yields	-1%pa	600
Decrease in equity and property values	-10%	-
Worsening of base renewal expense level	+10%	(1,700)
Improvement in base renewal expense level	-10%	1,500

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	Shareholders' fund £000	Total life business £000	Other activities £000	Group total £000
Shareholders' equity	-	16,560	22,614	39,174	198,344	237,518
Fund for future appropriations	29,706	-	-	29,706	-	29,706
Adjustments to assets/liabilities	(1,562)	(2,267)	2,500	(1,329)	(25,016)	(26,345)
Adjustments to actuarial liabilities	-	(7,140)	-	(7,140)	-	(7,140)
Total available capital resources	28,144	7,153	25,114	60,411	173,328	233,739
<i>Policyholder liabilities</i>						
- with-profit business	123,959	-	-	123,959		
- unit linked business	-	44,873	-	44,873		
- other investment business	-	3,973	-	3,973		
- other life insurance business	-	92,006	-	92,006		
Net actuarial liabilities on balance sheet	123,959	140,852	-	264,811		

# Allchurches Trust Limited

## Notes to the Financial Statements

### 20 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 plus a £2,500,000 injection of capital (2004: £5,000,000). The life shareholders' fund is the balance of shareholder equity in the life business. 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 (2004: £1,400,000). The adjustments to the non-profit fund net assets are capitalised computer software and deferred income from investment contracts (2004: £300,000).

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 fund for future appropriations 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, agreed early in 2006, 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 capital

	With-profit life fund £000	Non-profit life fund £000	Share- holders' fund £000	Total life business £000	Other activities £000	Group total £000
Published capital resources as at 31 December 2004	13,481	7,271	26,172	46,924	138,703	185,627
Restatements due to FSA rule changes	-	(434)	195	(239)	(6,557)	(6,796)
Restatements due to accounting policy changes	(727)	(692)	(205)	(1,624)	4,329	2,705
Restated capital resources as at 31 December 2004	12,754	6,145	26,162	45,061	136,475	181,536
Reserves movements for the period	-	4,562	1,452	6,014	55,546	61,560
Change to fund for future appropriations	15,542	-	-	15,542	(346)	15,196
Adjustments to assets/liabilities	(152)	(2,589)	(2,500)	(5,241)	(18,453)	(23,694)
Adjustments to actuarial liabilities	-	(965)	-	(965)	106	(859)
Capital resources as at 31 December 2005	28,144	7,153	25,114	60,411	173,328	233,739

Due to changes to FSA rules during the year, capitalised computer software is no longer an admissible asset, and the calculation of life company capital resources excludes the capital requirement for subsidiaries.

Following an accounting policy change, the valuation of financial investments is based on bid price as opposed to the mid-market price, which was used previously. In addition prior year tax provisions have been restated. Further details of prior year adjustments are given in note 18(b).

# Allchurches Trust Limited

## Notes to the Financial Statements

### 20 Insurance liabilities and reinsurance assets (continued)

#### (c) Movements in insurance liabilities and reinsurance assets

Group	Gross £000	Reinsurance £000	Net £000
<b>Claims outstanding</b>			
At 1 January 2005	363,592	(107,776)	255,816
Cash paid for claims settled in the year	(167,427)	42,049	(125,378)
Change in liabilities/reinsurance assets:			
- arising from current year claims	206,354	(45,391)	160,963
- arising from prior year claims	(23,650)	9,301	(14,349)
Exchange differences	5,591	(1,749)	3,842
At 31 December 2005	384,460	(103,566)	280,894
<b>Provision for unearned premiums</b>			
At 1 January 2005	161,474	(44,062)	117,412
Increase in the period	164,834	(44,942)	119,892
Release in the period	(162,236)	44,132	(118,104)
Exchange differences	2,459	(432)	2,027
At 31 December 2005	166,531	(45,304)	121,227
<b>Long term business provision (including technical provision for linked liabilities)</b>			
At 1 January 2005	220,099	(1,185)	218,914
Effect of new business during the year	10,096	(836)	9,260
Effect of claims during the year	(22,523)	140	(22,383)
Changes in assumptions	5,636	(4)	5,632
Change in methodology	(4,424)	394	(4,030)
Other movements	8,764	(192)	8,572
At 31 December 2005	217,648	(1,683)	215,965

#### (d) Bonuses

In 2005, profits allocated by the with-profit fund in the form of discretionary benefits amounted to £4,083,000 (2004: £4,050,000). In valuing conventional with-profit business an implicit allowance is made for future regular bonuses by means of a 10% reduction in the valuation interest rate. For with-profit bonds an explicit allowance is made for future regular bonuses based on the current rate of 3%.

### 21 Investment contract liabilities

Group investment contract liabilities are financial liabilities at fair value through profit and loss.

	2005 £000	2004 £000
Current	4,137	5,871
Non-current	44,709	36,348
Total	48,846	42,219

The benefits offered under the group's unit-linked investment contract are based on the return from selected equities and debt securities.

The amount of the change in the fair value of these liabilities that is not attributable to the change in the underlying assets is £67,000 (2004: £707,000).

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.



# Allechurches Trust Limited

## Notes to the Financial Statements

### 22 Provisions for other risks and charges

	Deferred tax £000	Regulatory levies £000	Restructuring and other provisions £000	Total £000
<i>Group</i>				
At 1 January 2005 (restated)	22,533	3,598	1,415	27,546
Additional provisions	-	1,417	-	1,417
Used during year	-	(793)	(220)	(1,013)
Exchange differences	-	-	5	5
Other movements	10,484	-	-	10,484
At 31 December 2005	33,017	4,222	1,200	38,439

#### *Regulatory levies*

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

#### *Restructuring*

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

### 23 Deferred tax

	2005 £000	2004 (Restated) £000
The potential net provision for deferred tax provided in the financial statements is as follows:		
Unrealised investment gains	35,424	24,738
Retirement benefit (obligations)/assets	(1,581)	1,016
Depreciation in excess of capital allowances	(1,878)	(1,553)
Other timing differences	(2,009)	(1,656)
Net provision for deferred tax	29,956	22,545

Movements in the net deferred tax provision are analysed as follows:

At 1 January	22,545	19,472
Charged to income	11,212	3,922
Credited to equity	(3,715)	(864)
Exchange differences	(86)	15
At 31 December 2005	29,956	22,545

The net provision for deferred tax is disclosed in the financial statements as follows:

Amount included in provisions for other risks and charges	33,017	22,533
Amount included in other debtors	(1,480)	(1,005)
Amount included in net pension assets	550	2,813
Amount included in retirement benefit obligations	(2,131)	(1,796)
	29,956	22,545

The group has unused tax loss relief of £7,182,000 (2004: £9,112,000) arising from pension business and capital transactions. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

# **Allchurches Trust Limited**

## **Notes to the Financial Statements**

<b>24 Other creditors including taxation and social security</b>	<b>2005</b>	<b>2004</b>
		(Restated)
	<b>£000</b>	<b>£000</b>
<i>Amounts falling due within one year:</i>		
Other creditors	8,717	8,121
Taxation	7,683	9,373
Corporate business loan	5,000	-
10% Redeemable Second Cumulative Preference shares in subsidiary undertaking	-	3,000
	<b>21,400</b>	<b>20,494</b>
<i>Amounts falling due after more than one year:</i>		
Debenture stock	6,000	6,000
Corporate business loans	11,450	19,250
Other creditors	989	941
	<b>18,439</b>	<b>26,191</b>
	<b>39,839</b>	<b>46,685</b>
<i>Included in other creditors are obligations under lease purchase contracts due:</i>		
In 1 year or less	584	502
Between 2 and 5 years	989	941
	<b>1,573</b>	<b>1,443</b>

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 £11,450,000 (2004: £14,250,000) 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 £14,250,000, is 23 December 2009.

On 28 July 2005, all 3,000,000 of the issued 10% Redeemable Second Cumulative Preference shares of £1 each in Ecclesiastical Insurance Office plc were redesignated into 8.625% Non-Cumulative Irredeemable Preference shares of £1 each and Redeemable Deferred Shares of £1 each in the ratio of nine Irredeemable Preference shares and one Redeemable Deferred share for every ten Redeemable Second Cumulative Preference shares of £1 held. On the same date the Redeemable Deferred shares of £1 each were redeemed at 1p each resulting in a credit to finance costs of £297,000. The market value of the Irredeemable Preference shares was £715,000 higher than the carrying amount of the Second Preference share liability redesignated. As a result, £715,000 has been recognised within finance costs with a corresponding amount recognised in retained earnings to reflect that, in substance, no share premium has been created.

# Allchurches Trust Limited

## Notes to the Financial Statements

25 Notes to the cash flow statement	2005	2004
(a) Reconciliation of profit on ordinary activities before tax to net cash flow from operating activities		(Restated)
	£000	£000
Profit on ordinary activities before tax	91,283	65,731
Depreciation charges	3,209	4,046
Amortisation of goodwill	418	418
Unrealised gains on investments	(36,804)	(13,996)
Increase in net general insurance technical provisions	26,489	17,381
(Profit)/loss relating to long term business	(4,563)	1,309
Loan interest payable	2,177	1,798
Redeemable preference share dividends payable	150	300
Other interest payable	130	143
Realised investment losses/(gains)	6,392	(1,218)
Loss on sale of tangible fixed assets	76	7
Movement in other debtors and creditors	(7,228)	5,850
Exchange and other non-cash movements	(1,792)	1,531
Net cash inflow from operating activities	79,937	83,300

### (b) Movements in cash, portfolio investments and financing

	At 1 January 2005 (Restated) £000	Cash flow £000	Changes in long term business £000	Exchange and other non-cash movements £000	At 31 December 2005 £000
Cash at bank and in hand	182,644	(946)	(5,660)	2,391	178,429
Shares and other variable yield securities	273,097	5,954	22,907	24,410	326,368
Fixed income securities	392,657	64,662	6,380	9,122	472,821
Land and buildings	25,659	2,330	1,723	3,758	33,470
	874,057	72,000	25,350	39,681	1,011,088
Loans due within one year	-	-	-	(5,000)	(5,000)
Loans due after one year	(25,250)	2,800	-	5,000	(17,450)
	848,807	74,800	25,350	39,681	988,638

### 26 Operating leases

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

	2005		2004	
	Premises £000	Equipment £000	Premises £000	Equipment £000
Commitments				
Expiring:				
Within 1 year	38	5	68	32
Between 2 and 5 years	625	200	736	156
Over 5 years	1,363	4	1,364	-
Total	2,026	209	2,168	188
Payments included in operating expenses	2,202	266	2,140	561

# Allchurches Trust Limited

## Notes to the Financial Statements

### 27 Capital commitments

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

	2005 £000	2004 £000
Property, plant and equipment	456	-

### 28 Subsidiary undertakings

Subsidiaries	Share capital	Holding of shares by:	
		Parent	Subsidiary
<i>Incorporated and operating in Great Britain, engaged in investment, insurance and financial services or other insurance related business:</i>			
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%
Ansvar Insurance Company Limited	Ordinary shares		100%
Ansvar Pensions Limited	Ordinary shares		100%
Ecclesiastical Group Asset Management Limited	Ordinary shares		100%
Ecclesiastical Insurance Office plc	Ordinary shares		100%
	8.625% Non-Cumulative Irredeemable		
	Preference shares		9.53%
Ecclesiastical Life Limited	Ordinary shares		100%
Ecclesiastical Underwriting Management Limited	Ordinary shares		100%
Ecumenical Insurance Company Limited	Ordinary shares		100%
Hinton and Wild (Home Plans) Limited	Ordinary shares		100%
The Churches Purchasing Scheme Limited	Ordinary shares		100%
<i>Incorporated and operating in Australia, engaged in insurance business:</i>			
EIG - Ansvar Limited	Ordinary shares		100%
<i>Incorporated and operating in New Zealand, engaged in insurance business:</i>			
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.

The financial statements of Ecclesiastical Insurance Office plc and Ecclesiastical Insurance Group plc, being the parent companies of the main trading groups, are publicly available therefore a detailed analysis of their results is not presented here. Copies of the financial statements are available from the registered office as shown on page 2.

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 £412,000 (2004: £418,000) 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 £118,000 (2004: £134,000) 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 (2004: £35,000) net of tax relief.