Company registration number 1043742

# ALLCHURCHES TRUST LIMITED



## 2009 ANNUAL REPORT

# Allchurches Trust Limited

## 2009 Annual Report

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# Allchurches Trust Limited

## Trustees



**Company Secretary**

Mrs R J Hall FCIS

**Registered and Head Office**

Beaufort House,
Brunswick Road,
Gloucester GL1 1JZ
Tel 0845 777 3322

**Company Registration Number**

1043742

**Charity Registration Number**

263960

**Auditors**

Deloitte LLP,
London

**Bankers**

National Westminster Bank plc,
21 Eastgate Street,
Gloucester GL1 1NH

**Solicitors**

Speechly Bircham LLP,
6 New Street Square,
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 2009

**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, to contribute to the funds of any charitable institutions, associations, funds or objects and to carry out any charitable purpose

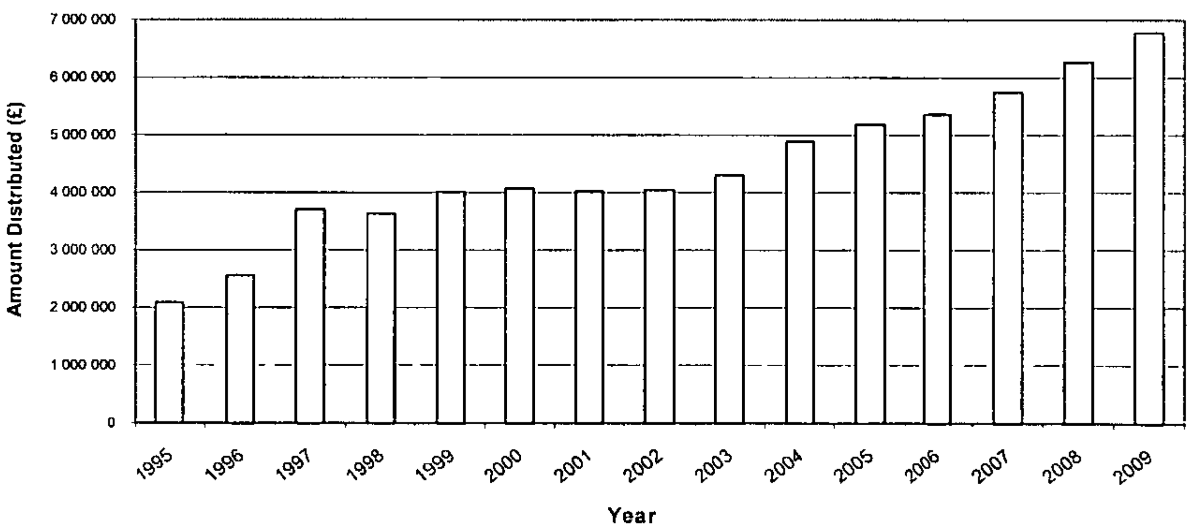
The trustees confirm that they have referred to the guidance contained in the Charity Commission's general guidance on public benefit when reviewing the Trust's aims and objectives and in planning future activities and setting the grant making policy for the year

The Trust has adopted the following priorities in meeting its objectives

- 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, Christian communities and other charitable 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
- establishing an overseas project fund to support the Church and Christian community overseas in accordance with its grant making policy

The trustees are currently reviewing the activities and aims to establish whether the above activities are still the main priorities If any amendments are made to the aims of the Trust then the trustees grant making policy will be amended

**Distributions**
The Trust has steadily increased distributions to dioceses, cathedrals, parishes and other charitable organisations since 1972, distributing £66 7 million over the last fifteen years



# Allchurches Trust Limited

## Trustees' Report - Objectives, Achievements and Performance

During 2009, the Trust allocated charitable distributions amounting to £6,783,000 A breakdown of these grants is as follows

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Distributions £000** | **Donations No** | Distributions £000 | Donations No |
| Dioceses | **5,267** | **120** | 5,000 | 110 |
| Cathedrals | **599** | **143** | 536 | 106 |
| Parishes and other charities | **917** | **799** | 731 | 751 |
| | **6,783** | **1,062** | 6,267 | 967 |

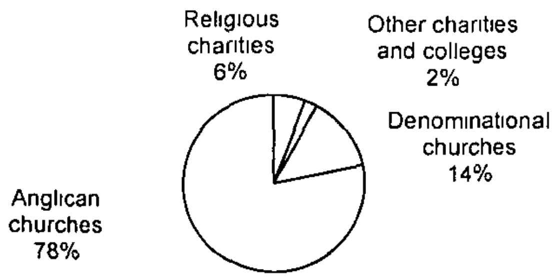
**Dioceses and cathedrals**
The majority of the Trust's donations are used to support the dioceses and cathedrals of the Church of England During the year, the Trust made donations of £5 9 million (2008 £5 5 million)

Grants were largely utilised 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
- 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, the Christian community and other charitable organisations 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 2009, 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 Council for the Care of Churches, the Rural Life and Faith Project at the Arthur Rank Centre and the University of Surrey

**Overseas projects**
During the year, the Trust allocated funds amounting to £20,000 (2008 £41,000) to support Christian causes overseas In addition, a subsidiary company operating in Australia donated £559,000 (2008 £527,000) to charitable causes in Australia

## Trustees' Report - Objectives, Achievements and Performance

**Delivering public benefit**
Some examples of recent grants are listed below These provide an illustration of our achievements and performance They also demonstrate the variety of causes that the Trust supports

*Wells Cathedral, Somerset*
A donation was made to assist with the re-opening, restoration and conservation work to the medieval fabric of the Cathedral's cloister walkways and the Pilgrim's Arch

*St Boniface Anglican Church, Belgium (Diocese in Europe)*
A grant was made towards the restoration of the Church and Church Hall for the renewal of roofs, the restoration of stained glass and the improvement of disabled access

*The Greater London Presence & Engagement Network (PEN), London*
A donation was made towards the provision of packs to equip Christians for mission and ministry in multi-faith contexts for distribution at an event in June 2009

*St Brigid's Church of Ireland, Clara, County Offaly*
Financial assistance was given towards the installation of lighting and cameras at the Church to deter vandalism

*Rumney Methodist Church, Cardiff*
A grant was made towards the removal of one of two churches on the site and with the proceeds of the sale of the land extend and modernise the remaining church

*St Luke's Church, Bath*
A grant was made to improve access to the Church, to improve toilet and lighting facilities and to create a cafe area in the building

*The Association of English Cathedrals, London*
Funding was given to enable the Association to conduct the first ever National Visitor Survey of English Cathedrals

*University of Surrey, Guildford*
It was agreed to support over a three year period the building of a multi-faith centre at the University and a home for the Anglican-led University Chaplaincy

*The Society of Mary and Martha, Exeter*
Funding was agreed over a three year period to rebuild the Long Barn used to accommodate clergy suffering from stress, crisis and breakdown

*St Peter de Beauvoir Church, Hackney, London*
Funding was given towards the transformation of the Church's crypt for the benefit of both church and community This includes use as a night shelter, for youth activities and for counselling services

*St Nicholas' Church, Blundellsands, Liverpool*
A donation was made towards the repair of high-level windows in the Church and for the repair of crumbling tracery

*St Paul's Church, Penketh, Warrington*
A grant was made to replace the existing Church building with a new worship and prayer centre

*Carrickfergus Methodist Church, Northern Ireland*
A donation was given to replace the existing Church building with a new multi-purpose one to better serve the community

*St Peter's Church, Harrogate, North Yorkshire*
A grant was made to extend the Church to provide a large hall and rooms for Sunday School and to improve catering facilities

*Balham Baptist Church, London*
Funding was given towards the cost of linking the Church Hall to the Church with a lounge and suite of rooms

*Woking United Reformed Church, Surrey*
A donation was given to build a multi-purpose atrium to the side of the Church, to re-order the Church's interior and to repair the roof

# Allchurches Trust Limited

## Trustees' Report - Financial Review

**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 £6 8 million (2008 £6 3 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 uses the facilities and services provided by Ecclesiastical Insurance Office plc for administrative support The company continues to have adequate and available resources to continue its charitable activities

**Incoming resources**
The Ecclesiastical group provided grants in the current year of £8 5 million (2008 £7 0 million)

Other income of the Trust comprises interest received from cash on deposit, and dividend and interest income on the Trust's endowment fund investment portfolio

The income of the Trust is shown in its statements of financial activities on pages 12 and 13

**Investment performance**
The start of 2009 coincided with the worst of the global financial crisis, however as concerted policy actions averted outright financial collapse investment markets performed well, and most economies exited recession by the end of the year The improving economic outlook provided a positive backdrop for global equity and corporate bond markets The Trust's capital endowment fund made a total return of +22 7% (2008 -0 8%), compared to a +21 2% return of the WM Charity Monitor, an independent external benchmark The endowment fund investment performance is included in the company 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 group undertakings is given in note 30

Ecclesiastical Insurance Office plc, the company's main subsidiary undertaking had a successful year Group profit after taxation amounted to £56 2 million (2008 £15 4 million loss) Group total assets rose to £1,694 4 million (2008 fell to £1,530 2 million) and group shareholders' funds amounted to £392 8 million (2008 £342 3 million) 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 page 3 and Group Chief Executive's review of operations on pages 6 to 8 of the accounts of the Ecclesiastical Insurance Office plc, a copy of which is sent to each member of Allchurches Trust Limited

**Related parties**
Related parties of the charity comprise the group's subsidiary and associate undertakings, and Beaufort House Trust Limited, a charity under common control and registered at the same address Related party transactions are disclosed in note 30

**Going concern**
A review of the group's business activities is provided within this trustees' report In addition, notes 1 and 2 to the financial statements disclose the group's principal risks and uncertainties, including exposures to insurance and financial risk and the group's objectives for managing capital The group has considerable financial resources and, as a consequence, the trustees believe the group is well placed to manage its business risks successfully and continue in operational existence for the foreseeable future, despite the current uncertain economic outlook Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts

# Allchurches Trust Limited

## Trustees' Report - Governance and Decision Making

**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 and wider 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 trustees will engage external search consultants if appropriate

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

Mr M R Cornwall-Jones retired as chairman and trustee on 23 July 2009 and was succeeded as chairman by Mr N J E Sealy

Mr W M Samuel and Mr C Smith were appointed as trustees on 2 September 2009 and 26 January 2010 respectively Sir Philip Mawer was appointed as a trustee on 23 June 2010

The trustees are covered by qualifying third party indemnity provisions, paid by Ecclesiastical Insurance Office plc, which were in place throughout the year and remain in force at the date of this report

**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 W H Yates and Mr M A Chamberlain retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting In accordance with the Articles of Association, Mr W M Samuel, Mr C Smith and Sir Philip Mawer retire at the forthcoming annual general meeting and, being eligible, offer themselves 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

# Allchurches Trust Limited

## Trustees' Report - Governance and Decision Making

**Risk management**
The major risks to which the company is exposed are reviewed by the trustees with the aid of external advisers Systems have been established to mitigate these risks

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, cash on deposit and endowment portfolio of investments held In respect of investments in group undertakings, the Trust is subject to the financial risks within those undertakings In respect of its cash deposits and portfolio investments the Trust is exposed to interest rate risk, credit risk, currency risk and equity price risk

**Charitable and political contributions**
During the course of the year the company and its subsidiary undertakings distributed from their resources £7 6 million (2008 £7 0 million) for charitable purposes A summary of these distributions is set out in note 12 Details of individual grants have been submitted to the Charity Commission

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

**Policy on payment of creditors**
It is the group's policy to pay creditors promptly and fully, in accordance with the terms of their contracts The group has not adopted any particular external code The number of days' purchases represented by the amounts due to trade creditors of the group at 31 December 2009 was 23 days (2008 27 days)

**Reserve policy**
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 distributed in the previous financial year In addition the trustees have resolved to retain and invest the expendable capital endowment funds to strengthen the charity's reserves

The total amount available for charitable distribution at the end of the year was £10 6 million (2008 £8 9 million)

**Investment policy**
Full details of the company's investments in group undertakings are disclosed in note 30 The principal investment objective in relation to the Trust's capital endowment fund is to maximise long term investment returns through a diversified portfolio with an acceptable risk profile Invested funds are normally expected to fall within the following ranges

| | |
|---|---|
| Equities | 60% - 80% |
| Fixed interest securities | 10% - 30% |
| Property | 0% - 10% |
| Cash | 0% - 20% |
| Unquoted investments | 0% - 5% |

The trustees regularly review the appropriateness of the investment strategy The trustees principal obligation is to promote and protect the financial interests of the Trust and of its beneficiaries The fund's performance will normally be reviewed on an annual basis, against an agreed benchmark provided by a suitable external performance service

**Grant making policy**
The trustees review the grant making policy annually to ensure it remains appropriate to the strategic direction of the charity and its objects, and thereby advances public benefit A copy of the grant making policy is available from the company secretary at the registered office shown on page 2

# Allchurches Trust Limited

## Trustees' Report - Governance and Decision Making

**Trustees' statement of responsibilities**
The trustees (who are also directors of Allchurches Trust Limited for the purposes of company law) are responsible for preparing the Trustees' Report and the financial statements in accordance with applicable law and regulations

Company law requires the trustees to prepare financial statements for each financial year Under company law the trustees must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the charitable company and the group and of the incoming resources and application of resources, including the income and expenditure, of the charitable group for that period In preparing these financial statements, the trustees are required to

- select suitable accounting policies and then apply them consistently
- observe the methods and principles in the Charities SORP
- make judgments and estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charitable company will continue in business

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

**Auditor and the disclosure of information to auditors**
So far as each person who was a trustee at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow trustees and the company's auditor, each trustee has taken all the steps that they ought to have taken as a trustee in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006

In accordance with Section 489 of the Companies Act 2006, a resolution proposing that Deloitte LLP be re-appointed as auditors of the company will be put to the annual general meeting

**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

By order of the board

R. Hall

Mrs R J Hall
*Secretary*
23 June 2010

# Independent Auditors' Report

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

We have audited the group and parent charity financial statements of Allchurches Trust Limited for the year ended 31 December 2009 which comprise the group and company statements of financial activities, the consolidated profit and loss account, the consolidated and parent company balance sheets, the consolidated cash flow statement, the accounting policies and the related notes 1 to 30 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 Chapter 3 of Part 16 of the Companies Act 2006 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 charitable company and the charitable 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**

The trustees' (who are also the directors of the company for the purposes of company law) responsibilities 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) and for being satisfied that the financial statements give a true and fair view are set out in the statement of trustees' responsibilities

Our responsibility is to audit the financial statements in accordance with relevant 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, have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and have been prepared in accordance with the Companies Act 2006 We also report to you whether in our opinion the information given in the trustees' report is consistent with the financial statements

In addition we report to you if, in our opinion, the charitable company has not kept adequate accounting records, if the charity's financial statements are not in agreement with the accounting records and returns, if we have not received all the information and explanations we require for our audit, or if certain disclosures of trustees' remuneration specified by law are not made

We read the trustees' report and consider the implications for our report if we become aware of any apparent misstatements within it

**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 group's and charity's circumstances, consistently applied and adequately disclosed

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

**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 2009, and the effect of the movement in those reserves during the year on the balance on the general business technical account and profit or loss on ordinary activities before taxation, are disclosed in note 22

# Allchurches Trust Limited

## Independent Auditors' Report

**Opinion**

In our opinion

- the financial statements give a true and fair view of the state of the group and the parent charity's affairs as at 31 December 2009 and of the incoming resources and application of resources, including its income and expenditure, for the year then ended,
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice,
- the financial statements have been prepared in accordance with the Companies Act 2006, and
- the information given in the trustees' report is consistent with the financial statements

Colin Rawlings (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom

1 July 2010

# Allchurches Trust Limited

## Company Statement of Financial Activities

for the year ended 31 December 2009

| | Notes | 2009 Unrestricted funds £000 | 2009 Endowment funds £000 | 2009 Total funds £000 | 2008 Total funds £000 |
|---|---|---|---|---|---|
| **Incoming resources** | | | | | |
| **Incoming resources from generated funds** | | | | | |
| *Investment income* | | | | | |
| Gift aid from subsidiary undertaking | | 8,500 | - | 8,500 | 7,000 |
| Other investment income | | 27 | 469 | 496 | 978 |
| *Voluntary income* | | | | | |
| Donated services and facilities | | 7 | - | 7 | 7 |
| **Total incoming resources** | | 8,534 | 469 | 9,003 | 7,985 |
| **Resources expended** | | | | | |
| *Charitable activities* | | | | | |
| Charitable grants | 12 | 6,783 | - | 6,783 | 6,267 |
| *Costs of generating voluntary income* | | | | | |
| Donated services and facilities | | 7 | - | 7 | 7 |
| Investment management costs | | - | 8 | 8 | - |
| *Governance costs* | | 3 | - | 3 | 6 |
| **Total resources expended** | | 6,793 | 8 | 6,801 | 6,280 |
| **Net incoming resources before other recognised gains and losses** | | 1,741 | 461 | 2,202 | 1,705 |
| **Other recognised gains and losses** | | | | | |
| *Gains and losses on investment assets* | | | | | |
| Movement in revaluation reserve | 14 | 35,184 | - | 35,184 | (19,821) |
| Other investment gains/(losses) | | - | 2,155 | 2,155 | (697) |
| **Total recognised gains and losses and net movement in funds** | | 36,925 | 2,616 | 39,541 | (18,813) |
| Total funds brought forward | | 290,024 | 11,742 | 301,766 | 320,579 |
| Total funds carried forward | 19 | 326,949 | 14,358 | 341,307 | 301,766 |

*Voluntary income consists of an amount of £7,000 (2008 £7,000) 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*

*The net incoming resources before other recognised gains and losses shown above represents the net income for the year for the purposes of the Companies Act 2006*

## Allchurches Trust Limited

## Group Statement of Financial Activities

for the year ended 31 December 2009

| | Notes | 2009 Unrestricted funds £000 | 2009 Endowment funds £000 | 2009 Total funds £000 | 2008 Total funds £000 |
|---|---|---|---|---|---|
| **Incoming resources** | | | | | |
| **Incoming resources from generated funds** | | | | | |
| *Investment income* | | | | | |
| Dividend and interest income | | 27 | 469 | 496 | 978 |
| *Activities for generating funds* | | | | | |
| Trading subsidiaries profit/(loss) | | 50,168 | - | 50,168 | (19,760) |
| **Total incoming resources** | | 50,195 | 469 | 50,664 | (18,782) |
| **Resources expended** | | | | | |
| *Charitable activities* | | | | | |
| Charitable grants | 12 | 7,605 | - | 7,605 | 7,009 |
| *Costs of generating voluntary income* | | | | | |
| Investment management costs | | - | 8 | 8 | - |
| *Governance costs of the charity* | | 3 | - | 3 | 6 |
| **Total resources expended** | | 7,608 | 8 | 7,616 | 7,015 |
| **Net incoming resources before other recognised gains and losses** | | 42,587 | 461 | 43,048 | (25,797) |
| **Other recognised gains and losses** | | | | | |
| Currency translation differences | | 6,763 | - | 6,763 | 6,149 |
| Gains/(losses) on other financial investments of the charity | | - | 2,155 | 2,155 | (697) |
| Actuarial (losses)/gains on retirement benefits | | (12,425) | - | (12,425) | 1,532 |
| **Total recognised gains and losses and net movement in funds** | | 36,925 | 2,616 | 39,541 | (18,813) |
| Total funds brought forward | | 290,024 | 11,742 | 301,766 | 320,579 |
| Total funds carried forward | 19 | 326,949 | 14,358 | 341,307 | 301,766 |

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

*The net incoming resources before other recognised gains and losses shown above represents the net income for the year for the purposes of the Companies Act 2006*

## Allchurches Trust Limited

## Consolidated Profit and Loss Account

for the year ended 31 December 2009

| TECHNICAL ACCOUNT - GENERAL BUSINESS | | Notes | 2009 £000 | 2008 £000 |
|---|---|---|---|---|
| Gross premiums written | | 4(a) | **427,698** | 384,693 |
| Outward reinsurance premiums | | | **(159,098)** | (138,521) |
| Net premiums written | | 4(a) | **268,600** | 246,172 |
| Change in the gross provision for unearned premiums | | | **17,322** | 5,853 |
| Change in the provision for unearned premiums, reinsurers' share | | | **(6,765)** | (3,552) |
| Change in the net provision for unearned premiums | | | **10,557** | 2,301 |
| **Earned premiums, net of reinsurance** | | | **258,043** | 243,871 |
| Claims paid | - gross amount | | **205,144** | 209,026 |
| | - reinsurers' share | | **(68,347)** | (74,155) |
| | | | **136,797** | 134,871 |
| Change in the provision for claims | - gross amount | | **(17,451)** | 17,040 |
| | - reinsurers' share | | **16,783** | 3,403 |
| | | | **(668)** | 20,443 |
| Claims incurred, net of reinsurance | | | **136,129** | 155,314 |
| Net operating expenses | | 6(a) | **92,984** | 96,460 |
| **Total technical charges** | | | **229,113** | 251,774 |
| **Balance on the technical account before equalisation provision** | | | **28,930** | (7,903) |
| Change in the equalisation provision | | 22 | **(3,662)** | 3,273 |
| **Balance on the technical account for general business** | | | **25,268** | (4,630) |

*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 2009

| TECHNICAL ACCOUNT - LONG TERM BUSINESS | | Notes | 2009 £000 | 2008 £000 |
|---|---|---|---|---|
| Gross premiums written | | 4(b) | 20,123 | 18,915 |
| Outward reinsurance premiums | | | (1,236) | (1,522) |
| Earned premiums, net of reinsurance | | | 18,887 | 17,393 |
| Investment income | | 5 | 13,505 | 23,685 |
| Unrealised gains on investments | | | 24,888 | - |
| **Total technical income** | | | 57,280 | 41,078 |
| Claims paid | - gross amount | | 28,685 | 33,425 |
| | - reinsurers' share | | (589) | (911) |
| | | | 28,096 | 32,514 |
| Change in the provision for claims | - gross amount | | 182 | (455) |
| | - reinsurers' share | | 32 | 18 |
| | | | 214 | (437) |
| Claims incurred, net of reinsurance | | | 28,310 | 32,077 |
| Change in other technical provisions | | | | |
| Long term business provision | - gross amount | | (13,898) | (11,695) |
| | - reinsurers' share | | (361) | 38 |
| | | | (14,259) | (11,657) |
| Technical provision for linked business | | | 22,505 | 5,109 |
| Provision for investment contract liabilities | | | 10,546 | (13,893) |
| Change in other technical provisions, net of reinsurance | | | 18,792 | (20,441) |
| Net operating expenses | | 6(a) | 5,082 | 4,366 |
| Investment expenses and charges | | 5 | 3,732 | 796 |
| Unrealised losses on investments | | | - | 56,454 |
| Tax attributable to long term business | | 11 | 640 | (3,280) |
| Transfer to/(from) the fund for future appropriations | | | 5,615 | (23,962) |
| | | | 15,069 | 34,374 |
| **Total technical charges** | | | 62,171 | 46,010 |
| **Balance on the technical account for long term business** | | | (4,891) | (4,932) |

*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 2009

| NON-TECHNICAL ACCOUNT | | Notes | 2009 £000 | 2008 £000 |
|---|---|---|---|---|
| **Balance on the general business technical account** | | | **25,268** | (4,630) |
| **Balance on the long term business technical account** | | | **(4,891)** | (4,932) |
| | | | **20,377** | (9,562) |
| Investment income | | 5 | **37,929** | 46,526 |
| Unrealised gains on investments | | | **39,773** | - |
| Investment expenses and charges | | 5 | **(12,314)** | (3,388) |
| Unrealised losses on investments | | | **-** | (53,501) |
| Other finance income | | 18 | **938** | 2,839 |
| Other operations | | | **(3,061)** | (1,734) |
| Other charges | | 6(b) | **(6,792)** | (2,162) |
| Charitable grants | | 12 | **(7,605)** | (7,009) |
| | | | **48,868** | (18,429) |
| Operating profit/(loss) | - acquisitions | | **-** | 913 |
| | - share of profit of associate | | **970** | - |
| | - other continuing operations | | **71,937** | (32,177) |
| Change in equalisation provision | | 22 | **(3,662)** | 3,273 |
| **Profit/(loss) on ordinary activities before tax** | | 4(c) | **69,245** | (27,991) |
| Tax (charge)/credit on profit or loss on ordinary activities | | 11 | **(18,828)** | 6,711 |
| **Profit/(loss) on ordinary activities after tax** | | | **50,417** | (21,280) |
| Minority interests | | 21 | **(5,214)** | (5,214) |
| **Retained profit/(loss) for the financial year** | | 19 | **45,203** | (26,494) |

### CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2009

| | | 2009 £000 | 2008 £000 |
|---|---|---|---|
| Retained profit/(loss) for the financial year | | **45,203** | (26,494) |
| Currency translation differences | | **6,763** | 6,149 |
| Actuarial losses relating to pension asset | | **(15,081)** | (1,678) |
| Movement on deferred tax relating to pension asset | | **4,163** | 421 |
| Actuarial (losses)/gains relating to other retirement benefits | | **(2,093)** | 3,874 |
| Movement on deferred tax relating to other retirement benefits | | **586** | (1,085) |
| **Total recognised gains and losses for the financial year** | 20 | **39,541** | (18,813) |

## Allchurches Trust Limited

## Parent Company Balance Sheet

at 31 December 2009

| | Notes | 2009 Unrestricted funds £000 | 2009 Endowment funds £000 | 2009 Total funds £000 | 2008 Total funds £000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Investments | 14 | 316,305 | 12,934 | 329,239 | 289,720 |
| **Current assets** | | | | | |
| Prepayments and accrued income | | 4,500 | 116 | 4,616 | 3,144 |
| Cash at bank and in hand | | 8,954 | 1,308 | 10,262 | 8,981 |
| | | 13,454 | 1,424 | 14,878 | 12,125 |
| **Liabilities** | | | | | |
| Creditors amounts falling due within one year | | 2,810 | - | 2,810 | 79 |
| **Net current assets** | | 10,644 | 1,424 | 12,068 | 12,046 |
| **Net assets** | | 326,949 | 14,358 | 341,307 | 301,766 |
| **The funds of the charity** | | | | | |
| Unrestricted funds | | | | | |
| Unrestricted income funds | 19 | 10,694 | - | 10,694 | 8,953 |
| Revaluation reserve | 19 | 316,255 | - | 316,255 | 281,071 |
| | | 326,949 | - | 326,949 | 290,024 |
| Endowment funds | 19 | - | 14,358 | 14,358 | 11,742 |
| **Total charity funds** | | 326,949 | 14,358 | 341,307 | 301,766 |

The financial statements of Allchurches Trust Limited, registration number 1043742, on pages 12 to 66 were approved by the Board on 23 June 2010 and signed on its behalf by

N J E SEALY Chairman

W H YATES Trustee

# Allchurches Trust Limited

## Consolidated Balance Sheet

at 31 December 2009

| | Notes | 2009 Unrestricted funds £000 | 2009 Endowment funds £000 | 2009 Total funds £000 | 2008 Total funds £000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Intangible assets** | 13 | **17,093** | - | **17,093** | 18,999 |
| **Investments** | | | | | |
| Land and buildings | 14 | **28,308** | - | **28,308** | 28,893 |
| Interest in associate | 14 | **16,348** | - | **16,348** | - |
| Other financial investments | 14 | **985,506** | **12,934** | **998,440** | 948,324 |
| | | **1,030,162** | **12,934** | **1,043,096** | 977,217 |
| **Reinsurers' share of technical provisions** | | | | | |
| Provision for unearned premiums | 22 | **66,531** | - | **66,531** | 57,209 |
| Long term business provision | 22 | **2,591** | - | **2,591** | 2,230 |
| Claims outstanding | 22 | **124,769** | - | **124,769** | 139,482 |
| | | **193,891** | - | **193,891** | 198,921 |
| **Debtors** | | | | | |
| Debtors arising out of direct insurance operations | 16(a) | **81,969** | - | **81,969** | 71,977 |
| Debtors arising out of reinsurance operations | 16(b) | **9,340** | - | **9,340** | 9,890 |
| Other debtors | | **16,362** | - | **16,362** | 12,787 |
| | | **107,671** | - | **107,671** | 94,654 |
| **Other assets** | | | | | |
| Tangible assets | 17 | **10,602** | - | **10,602** | 10,818 |
| Cash at bank and in hand | | **176,702** | **1,308** | **178,010** | 135,686 |
| | | **187,304** | **1,308** | **188,612** | 146,504 |
| **Prepayments and accrued income** | | | | | |
| Accrued interest and rent | | **8,029** | **86** | **8,115** | 8,569 |
| Deferred acquisition costs | | **38,298** | - | **38,298** | 34,048 |
| Other prepayments and accrued income | | **5,373** | **30** | **5,403** | 3,728 |
| | | **51,700** | **116** | **51,816** | 46,345 |
| **Total assets excluding pension assets** | | **1,587,821** | **14,358** | **1,602,179** | 1,482,640 |
| **Pension assets** | 18 | **10,406** | - | **10,406** | 19,418 |
| **Total assets** | 4(e) | **1,598,227** | **14,358** | **1,612,585** | 1,502,058 |

# Allchurches Trust Limited

## Consolidated Balance Sheet

at 31 December 2009

| LIABILITIES | Notes | 2009 Unrestricted funds £000 | 2009 Endowment funds £000 | 2009 Total funds £000 | 2008 Total funds £000 |
|---|---|---|---|---|---|
| **Reserves** | | | | | |
| Translation reserve | 19 | 18,342 | - | 18,342 | 11,579 |
| Profit and loss account | 19 | 308,607 | - | 308,607 | 278,445 |
| Endowment funds | 19 | - | 14,358 | 14,358 | 11,742 |
| | | 326,949 | 14,358 | 341,307 | 301,766 |
| **Minority interests** | 21 | 60,453 | - | 60,453 | 60,453 |
| **Fund for future appropriations** | | 21,489 | - | 21,489 | 15,874 |
| **Technical provisions** | | | | | |
| Provision for unearned premiums | 22 | 214,496 | - | 214,496 | 190,570 |
| Long term business provision | 22 | 166,342 | - | 166,342 | 180,240 |
| Claims outstanding | 22 | 522,570 | - | 522,570 | 531,931 |
| Equalisation provision | 22 | 21,674 | - | 21,674 | 18,012 |
| | | 925,082 | - | 925,082 | 920,753 |
| **Technical provision for linked liabilities** | 22 | 75,910 | - | 75,910 | 53,405 |
| **Investment contract liabilities** | 23 | 51,822 | - | 51,822 | 40,943 |
| **Provisions for other risks** | 24 | 43,664 | - | 43,664 | 35,646 |
| **Creditors** | | | | | |
| Creditors arising out of direct insurance operations | | 2,660 | - | 2,660 | 2,407 |
| Creditors arising out of reinsurance operations | 16(b) | 13,554 | - | 13,554 | 14,699 |
| Other creditors including taxation and social security | 26 | 32,841 | - | 32,841 | 21,825 |
| | | 49,055 | - | 49,055 | 38,931 |
| **Accruals and deferred income** | | 39,400 | - | 39,400 | 30,672 |
| **Total liabilities excluding retirement benefit obligations** | | 1,593,824 | 14,358 | 1,608,182 | 1,498,443 |
| **Retirement benefit obligations** | 18 | 4,403 | - | 4,403 | 3,615 |
| **Total liabilities** | | 1,598,227 | 14,358 | 1,612,585 | 1,502,058 |

## Allchurches Trust Limited

## Consolidated Cash Flow Statement

for the year ended 31 December 2009 (excluding long term insurance business)

| | Notes | 2009 £000 | 2008 £000 |
|---|---|---|---|
| **Net cash inflow from operating activities** | 27(a) | **59,509** | 54,542 |
| **Servicing of finance** | | | |
| Loan interest paid | | **(780)** | (780) |
| Preference dividends paid to minority interests | | **(5,214)** | (5,214) |
| Other interest paid | | **(220)** | (222) |
| **Taxation paid** | | **(5,179)** | (911) |
| **Capital expenditure** | | | |
| Purchase of tangible fixed assets | | **(3,143)** | (4,530) |
| Proceeds from the disposal of fixed assets | | **55** | 48 |
| **Acquisitions and disposals** | | **(17,045)** | (20,781) |
| **Financing** | | | |
| Capital element of lease purchase rental payments | | **(333)** | (398) |
| | 27(b) | **27,650** | 21,754 |
| **Cash flows were invested as follows** | | | |
| **Increase/(decrease) in cash holdings** | | **57,002** | (51,969) |
| **Portfolio investment** | | | |
| Purchases of shares and other variable yield securities | | **10,946** | 25,578 |
| Purchases of fixed income securities | | **97,257** | 346,236 |
| Purchases of properties | | **414** | - |
| Sales of shares and other variable yield securities | | **(3,383)** | (10,012) |
| Sales of fixed income securities | | **(134,586)** | (288,079) |
| **Net investment of cash flows** | | **27,650** | 21,754 |
| **Movement arising from cash flows** | | **27,650** | 21,754 |
| Movement in long term business | | **21,951** | (45,821) |
| Changes in market values and exchange rate effects | | **42,254** | (26,157) |
| **Total movement in portfolio investments net of financing** | | **91,855** | (50,224) |
| **Portfolio investments net of financing at 1 January** | | **1,106,903** | 1,157,127 |
| **Portfolio investments net of financing at 31 December** | 27(b) | **1,198,758** | 1,106,903 |

# Allchurches Trust Limited

## Accounting Policies

**Basis of preparation**

The consolidated financial statements have been prepared on a historical cost basis, modified for the revaluation of certain investments, in accordance with Section 404 of the Companies Act 2006, and the provision of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410") relating to insurance groups The parent company (also referred to as the charity) financial statements have been prepared on a historical cost basis, in accordance with Section 396 of the Companies Act 2006 and SI2008/410 Both the consolidated and parent financial statements have been prepared 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 3 of SI2008/410 For consistency with the requirements of Schedule 3, 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

A review of the group's business activities is provided within the trustees' report In addition, notes 1 and 2 to the financial statements disclose the group's principal risks and uncertainties, including exposures to insurance and financial risk and the group's objectives for managing capital The group has considerable financial resources and, as a consequence, the trustees believe the group is well placed to manage its business risks successfully and continue in operational existence for the foreseeable future, despite the current uncertain economic outlook Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts

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

**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

In the charity balance sheet investments in subsidiary undertakings are accounted for at current value, estimated by reference to their underlying net asset value, in accordance with the Charities SORP Changes in value are reported under 'gains and losses on investment assets' in the charity statement of financial activities

Associated undertakings are companies other than subsidiary undertakings in which the group holds 20% or more of the equity share capital for the long-term and over which the group exercises significant influence Associated undertakings are accounted for using the equity method from the date that significant influence commences until the date that significant influence ceases

**Funds structure**

Unrestricted funds of the charity consist of funds available to the trustees to apply for the general purposes of the charity, in addition to amounts designated for each of the priorities adopted by the Trust as set out in the trustees' report on page 3 The trustees have the power to re-designate such funds within unrestricted funds Endowment funds are expendable endowments that are retained to strengthen the charity's reserves The trustees have the power to convert endowment funds to expendable income

**Incoming resources**

Gift aid and deposit interest of the charity are recognised on an accruals basis Income from endowment funds is unrestricted

**Resources expended**

Resources expended by the charity comprise charitable grants which are recognised on an accruals basis

Governance costs include audit fees and costs associated with meeting the statutory requirements of the charity

## Allchurches Trust Limited

## Accounting Policies

**Foreign exchange**
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

**Claims**

Long term insurance business maturity claims and annuities are charged against revenue when they become payable Surrenders are accounted for when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the long term business provision or the technical provision for linked liabilities Death claims and all other claims are accounted for when notified Reinsurance recoveries are accounted for in the same period as the related claim For investment contracts, claims are not included in the 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 1 of the Prudential sourcebook for Insurers It is required by SI 2008/410 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 Prudential sourcebook for Insurers This statutory solvency basis of valuation is then adjusted by eliminating or adjusting certain reserves advised under insurance companies regulations and general contingency reserves This adjusted basis is referred to as the modified statutory solvency basis The consequent long term business provision is grossed up for the impact of reinsurance

**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 selected unitised investment funds at the balance sheet date The holdings in these funds are designated at fair value through profit and loss In order to prevent a measurement inconsistency investment contract liabilities have also been designated at fair value through profit and loss

**Reinsurance**

The group assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business Premiums on reinsurance assumed are recognised as revenue in the same manner as direct business Outwards reinsurance premiums are accounted for in the same accounting period as the related premiums for the direct or inwards reinsurance business being reinsured

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

**Intangible assets**

*Goodwill*

Goodwill arising on the acquisition of subsidiary undertakings, 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

*Other intangible assets*

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

The amortisation charge for goodwill and other intangibles for the period is included in the profit and loss account within other charges

**Financial instruments**

FRS 26 requires the classification of certain financial assets and liabilities into separate categories for which the accounting requirements differ

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

- financial instruments designated as at fair value through profit and loss and those held for trading are subsequently carried at fair value Changes in fair value are included in the profit and loss account in the period in which they arise
- all other financial assets and liabilities are held at amortised cost, using the effective interest method (except for short-term debtors and creditors when the recognition of interest would be immaterial)

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

**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 2006, 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 these investments as either financial assets at fair value through profit and loss (designated as such or held for trading) or loans and receivables

(i) Financial assets at fair value through profit and loss

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

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

(ii) Loans and receivables

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

**Derivative financial instruments**

Derivative financial instruments include financial instruments that derive their value from underlying equity instruments For a variety of reasons, group derivative transactions, while providing effective economic hedges under the group's risk management positions, do not qualify for hedge accounting under the specific FRS 26 rules and are therefore treated as derivatives held for trading All derivatives are initially recognised in the balance sheet at their fair value, which usually represents their cost, including any premium paid They are subsequently re-measured at their fair value with changes in the fair value recognised immediately in profit or loss All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative

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

**Investment income and expenses**

Investment income and expenses includes dividends, interest, rents, amortisation, share of profit of associate, 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 Unrealised gains and losses on investments held by the parent company are included as other recognised gains and losses in the statement of financial activities

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

**Taxation**
The company is a registered charity and as such is exempt from tax on income and gains falling within section 505 of the Taxes Act 1988 or section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that these are applied to its charitable objects No tax charges have arisen in the charity in either the current or prior year

The group is subject to corporation tax which is recognised in the consolidated profit and loss account, being the expected tax payable on the taxable results for the period and any adjustment to the tax payable in respect of previous periods

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 Deferred tax assets and liabilities are not discounted

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

**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 |

## Accounting Policies

**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

**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 estimates established using statistical techniques

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

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

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

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

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

Climate change may give rise to more frequent and severe extreme weather events, such as river flooding, hurricanes and drought, and their consequences, for example, subsidence claims

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

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

**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* | | Type of risk | | | | |
|---|---|---|---|---|---|---|
| **2009** | | **Property £000** | **Liability £000** | **Motor £000** | **Accident £000** | **Total £000** |
| **Territory** | | | | | | |
| United Kingdom | Gross | **220,595** | **64,346** | **20,407** | **6,833** | **312,181** |
| | Net | **119,047** | **57,103** | **18,987** | **6,551** | **201,688** |
| Australia and New Zealand | Gross | **56,271** | **15,182** | **8,545** | **541** | **80,539** |
| | Net | **19,706** | **12,897** | **8,239** | **456** | **41,298** |
| Canada | Gross | **17,599** | **6,016** | - | - | **23,615** |
| | Net | **11,482** | **5,509** | - | - | **16,991** |
| Other overseas | Gross | **7,034** | **4,275** | **8** | **46** | **11,363** |
| | Net | **4,630** | **3,942** | **7** | **44** | **8,623** |
| Total | Gross | **301,499** | **89,819** | **28,960** | **7,420** | **427,698** |
| | Net | **154,865** | **79,451** | **27,233** | **7,051** | **268,600** |
| 2008 | | | | | | |
| Territory | | | | | | |
| United Kingdom | Gross | 202,698 | 62,130 | 20,975 | 6,816 | 292,619 |
| | Net | 109,947 | 55,145 | 19,419 | 6,476 | 190,987 |
| Australia and New Zealand | Gross | 44,440 | 11,808 | 8,382 | 428 | 65,058 |
| | Net | 16,491 | 10,065 | 8,099 | 377 | 35,032 |
| Canada | Gross | 13,132 | 4,315 | - | - | 17,447 |
| | Net | 9,070 | 3,897 | - | - | 12,967 |
| Other overseas | Gross | 5,941 | 3,584 | 5 | 39 | 9,569 |
| | Net | 3,845 | 3,299 | 5 | 37 | 7,186 |
| Total | Gross | 266,211 | 81,837 | 29,362 | 7,283 | 384,693 |
| | Net | 139,353 | 72,406 | 27,523 | 6,890 | 246,172 |

**1 Insurance risk (continued)**

**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

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

*Sources of uncertainty*

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

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

**1 Insurance risk (continued)**

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

*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

| | With-profit fund £000 | Non-profit fund £000 | Total £000 |
|---|---|---|---|
| **Long term business provision at 31 December 2009** | | | |
| Life assurance | **61,938** | **54,403** | **116,341** |
| Pensions assurance | **37,104** | **-** | **37,104** |
| Pensions annuities in payment | **-** | **77,080** | **77,080** |
| Life annuities in payment | **-** | **8,827** | **8,827** |
| Permanent health insurance | **-** | **309** | **309** |
| **Total** | **99,042** | **140,619** | **239,661** |
| Investment products | **-** | **51,822** | **51,822** |
| **Total technical provisions excluding outstanding claims, net of reinsurance** | **99,042** | **192,441** | **291,483** |
| Long term business provision at 31 December 2008 | | | |
| Life assurance | 67,666 | 45,318 | 112,984 |
| Pensions assurance | 37,656 | - | 37,656 |
| Pensions annuities in payment | - | 69,192 | 69,192 |
| Life annuities in payment | - | 11,203 | 11,203 |
| Permanent health insurance | - | 380 | 380 |
| Total | 105,322 | 126,093 | 231,415 |
| Investment products | - | 40,943 | 40,943 |
| Total technical provisions excluding outstanding claims, net of reinsurance | 105,322 | 167,036 | 272,358 |

*Long term 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 widespread changes in lifestyle resulting in more or fewer claims than expected For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that would increase longevity

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

**1 Insurance risk (continued)**
**Frequency and severity of claims (continued)**
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 policyholders The investment risk has been largely mitigated by holding fixed interest assets of a similar term to the expected longevity profile The longevity risk is retained by the group and directly impacts on total reserves

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 considered the impact of policyholders' behaviour in the calculation of these liabilities

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

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

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

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

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

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

**1 Insurance risk (continued)**

**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 fund for future appropriations 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 maturity and surrender value guarantees*

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

The difference between the guaranteed benefits and the value of the assets deemed to be allocated to the policies (their asset share) at maturity or at the point of surrender, represents the net cost of the guarantees For maturities in 2010, this net cost is expected to total £1 8 million (2008 £0 6 million expected for 2009) and for surrenders it is expected to total £0 2 million (2008 £0 1 million expected for 2009) 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 £2 3 million (2008 £1 4 million) and £0 3 million (2008 £0 2 million) respectively

*No market value reduction (MVR) guarantees*

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

- on partial withdrawals of the bond not exceeding 7 5% per annum of the original amount invested,
- on withdrawals from the deposit administration contract for the purchase of immediate annuities for individual members, and
- on withdrawal of all benefits over a 10 year period

The cost of the guarantee is determined by the relationship between the total benefits on the contract and the total asset share when applied to the amount of the withdrawal If withdrawals were made on all contracts up to the maximum level for the no MVR guarantee, then the total cost in 2010 is expected to total £0 2 million (2008 £0 7 million expected for 2009) 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 4 million (2008 increase to £0 9 million)

*With-profit guaranteed regular bonus rates*

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

**2 Financial risk and capital management**

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

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

**(a) Categories of financial instruments**

| | Financial assets | | | Financial liabilities | | | | |
|---|---|---|---|---|---|---|---|---|
| *Group* | Designated at fair value £000 | Held for trading £000 | Loans and receivables* £000 | Designated at fair value £000 | Held for trading £000 | At amortised cost £000 | Other assets and liabilities £000 | Total £000 |
| **At 31 December 2009** | | | | | | | | |
| Other financial investments | **968,316** | **2,596** | **27,528** | - | - | - | - | **998,440** |
| Debtors | - | - | **104,298** | - | - | - | **3,373** | **107,671** |
| Cash at bank and in hand | - | - | **178,010** | - | - | - | - | **178,010** |
| Prepayments and accrued income | - | - | **10,232** | - | - | - | **41,584** | **51,816** |
| Investment contract liabilities | - | - | - | **(51,822)** | - | - | - | **(51,822)** |
| Creditors | - | - | - | - | **(1,196)** | **(33,572)** | **(14,287)** | **(49,055)** |
| Accruals and deferred income | - | - | - | - | - | **(16,563)** | **(22,837)** | **(39,400)** |
| Net other | - | - | - | - | - | - | **(854,353)** | **(854,353)** |
| Total | **968,316** | **2,596** | **320,068** | **(51,822)** | **(1,196)** | **(50,135)** | **(846,520)** | **341,307** |

** Cash at bank and in hand is presented with loans and receivables*

**2 Financial risk and capital management (continued)**

| *Group* | Financial assets | | | Financial liabilities | | | | |
|---|---|---|---|---|---|---|---|---|
| | Designated at fair value | Held for trading | Loans and receivables* | Designated at fair value | Held for trading | At amortised cost | Other assets and liabilities | Total |
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| **At 31 December 2008** | | | | | | | | |
| Other financial investments | 911,536 | 4,081 | 32,707 | - | - | - | - | 948,324 |
| Debtors | - | - | 91,612 | - | - | - | 3,042 | 94,654 |
| Cash at bank and in hand | - | - | 135,686 | - | - | - | - | 135,686 |
| Prepayments and accrued income | - | - | 9,035 | - | - | - | 37,310 | 46,345 |
| Investment contract liabilities | - | - | - | (40,943) | - | - | - | (40,943) |
| Creditors | - | - | - | - | (999) | (29,353) | (8,579) | (38,931) |
| Accruals and deferred income | - | - | - | - | - | (10,272) | (20,400) | (30,672) |
| Net other | - | - | - | - | - | - | (812,697) | (812,697) |
| Total | 911,536 | 4,081 | 269,040 | (40,943) | (999) | (39,625) | (801,324) | 301,766 |

** Cash at bank and in hand is presented with loans and receivables*

**(b) Fair value hierarchy**

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

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

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

Level 3 fair values measured using inputs for the asset or liability that are not based on observable market data (unobservable inputs) This category includes unlisted equities, including investments in venture capital, and suspended securities

Current market conditions have given rise to reduced liquidity of financial instruments This has led to a number of debt securities being classified as Level 2, with fair values based on quoted prices in markets that are less active than historically experienced, or where prices are less current

**2 Financial risk and capital management (continued)**
**Analysis of fair value measurement bases**

| *Group* | Fair value measurement at the end of the reporting period based on | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **At 31 December 2009** | £000 | £000 | £000 | £000 |
| **Financial assets at fair value through profit and loss** | | | | |
| Other financial investments | | | | |
| Equity securities | **344,041** | **3,779** | **23,533** | **371,353** |
| Debt securities | **590,267** | **8,705** | **587** | **599,559** |
| | **934,308** | **12,484** | **24,120** | **970,912** |
| **Financial liabilities at fair value through profit and loss** | | | | |
| Investment contract liabilities | - | **51,822** | - | **51,822** |
| Creditors | | | | |
| Derivative liabilities | **1,196** | - | - | **1,196** |
| | **1,196** | **51,822** | - | **53,018** |

**Fair value measurements based on level 3**
Fair value measurements in level 3 consist of financial assets, analysed as follows

| *Group* | Financial assets at fair value through profit and loss | | |
|---|---|---|---|
| | Equity securities | Debt securities | Total |
| **At 31 December 2009** | £000 | £000 | £000 |
| Opening balance | **22,811** | **566** | **23,377** |
| Total gains/(losses) recognised in profit or loss | **198** | **(43)** | **155** |
| Purchases | **251** | **75** | **326** |
| Disposal proceeds | **(276)** | **(11)** | **(287)** |
| Transfers into Level 3 | **549** | - | **549** |
| Closing balance | **23,533** | **587** | **24,120** |
| | £000 | £000 | £000 |
| Total gains/(losses) for the period included in profit or loss for assets held at the end of the reporting period | **203** | **(43)** | **160** |

All the above gains or losses included in profit or loss for the period are presented within realised and unrealised gains in the profit and loss account

**2 Financial risk and capital management (continued)**
**(c) Interest rate risk**
The table below summarises the maturity dates for those assets and liabilities that are exposed to interest rate risk

| | Maturing within | | | |
|---|---|---|---|---|
| | 1 year or less | 2-5 years | More than 5 years | Total |
| *Group* | £000 | £000 | £000 | £000 |
| **At 31 December 2009** | | | | |
| **Assets** | | | | |
| Debt securities | **77,530** | **325,389** | **196,640** | **599,559** |
| Mortgage and other loans | **4,017** | **721** | **13,603** | **18,341** |
| Loans to related parties | **360** | - | - | **360** |
| Non-profit reinsurers' share of long term business provisions | **592** | **223** | **1,718** | **2,533** |
| Other assets including insurance receivables | **34,723** | - | - | **34,723** |
| Cash at bank and in hand | **178,010** | - | - | **178,010** |
| | **295,232** | **326,333** | **211,961** | **833,526** |
| **Liabilities** | | | | |
| 13% Debenture Stock 2018 | - | - | **6,000** | **6,000** |
| Finance lease obligations | **355** | **1,533** | - | **1,888** |
| Non-profit long term business provisions | **1,531** | **1,622** | **139,999** | **143,152** |
| Investment contract liabilities | **3,587** | **6,143** | **42,092** | **51,822** |
| | **5,473** | **9,298** | **188,091** | **202,862** |
| **At 31 December 2008** | | | | |
| **Assets** | | | | |
| Debt securities | 88,833 | 305,841 | 224,122 | 618,796 |
| Mortgage and other loans | 3,799 | 957 | 15,467 | 20,223 |
| Non-profit reinsurers' share of long term business provisions | 1,716 | 277 | 179 | 2,172 |
| Other assets including insurance receivables | 40,223 | - | - | 40,223 |
| Cash at bank and in hand | 135,686 | - | - | 135,686 |
| | 270,257 | 307,075 | 239,768 | 817,100 |
| **Liabilities** | | | | |
| 13% Debenture Stock 2018 | - | - | 6,000 | 6,000 |
| Finance lease obligations | 371 | 1,215 | - | 1,586 |
| Non-profit long term business provisions | 2,898 | 1,905 | 123,462 | 128,265 |
| Investment contract liabilities | 1,917 | 4,977 | 34,049 | 40,943 |
| | 5,186 | 8,097 | 163,511 | 176,794 |

**2 Financial risk and capital management (continued)**
Those financial assets and liabilities that are measured at fair value and have fixed interest rates are subject to fair value interest rate risk Those financial assets and liabilities with variable interest rates are subject to cash flow interest rate risk

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

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

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

*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 equity price, currency, credit, or interest rate risk to the group for these contracts under current circumstances It is possible under some circumstances that guaranteed benefits will exceed the fund's assets and the group could be called upon to provide financial support to the fund The nature of these guarantees is described in more detail in note 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 to the group for these contracts

**2 Financial risk and capital management (continued)**

**(d) 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
- corporate bond counterparty default

The carrying amount of financial assets represents the group's maximum exposure to credit risk Collateral is held over loans secured by mortgages

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

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

The group's credit risk policy details prescriptive methods for the collection of premiums and control of intermediary and policyholder debtor balances The level and age of debtor balances are regularly assessed via monthly credit management reports These reports are scrutinised to assess exposure in more than one region in respect of aged or outstanding balances Any such balances are likely to be major international brokers who are in turn monitored via credit reference agencies and considered to pose minimal risk of default

The group has no material concentration of credit risk in respect of amounts due from insurance intermediaries and policyholders due to the well-diversified spread of such debtors

The fixed interest portfolio consists of a range of fixed interest instruments including government securities, local authority issues, corporate loans and bonds, overseas bonds, preference shares and other interest bearing securities Limits are imposed on the credit ratings of the corporate bond portfolio and exposures regularly monitored

**(e) Liquidity risk**

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

A maturity analysis for those non-derivative financial liabilities that are exposed to interest rate risk is included in part (c) of this note Derivative financial liabilities of the group all mature within one year

**2 Financial risk and capital management (continued)**

**(f) Currency risk**

The group operates internationally and its main exposures to foreign exchange risk are noted below The group's foreign operations generally invest in assets 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
- the equity investment in foreign branches and subsidiaries is translated into sterling using the exchange rate at the financial statement year end date

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

| *Group* | **2009 £000** | 2008 £000 |
|---|---|---|
| Euro | **59,089** | 55,222 |
| Aus $ | **41,925** | 31,011 |
| Can $ | **31,266** | 28,385 |
| Hong Kong $ | **14,656** | 6,756 |
| US $ | **8,276** | (7,935) |

**(g) Equity price risk**

The group is exposed to equity price risk because of financial investments held by the group and stated at fair value through profit and loss The group mitigates this risk by holding a diversified portfolio across geographical regions and market sectors, and through the use of options and futures contracts from time to time which would limit losses in the event of a fall in equity markets

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

| *Group* | **2009 £000** | 2008 £000 |
|---|---|---|
| UK | **119,310** | 87,386 |
| Europe | **55,598** | 48,431 |
| Hong Kong | **15,054** | 6,379 |
| USA | **6,604** | 6,040 |
| Other | **27,384** | 20,023 |
| **Total** | **223,950** | 168,259 |

**2 Financial risk and capital management (continued)**

**(h) Market risk sensitivity analysis**

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

| Variable | Change in variable | Potential increase/ (decrease) in profit 2009 £000 | 2008 £000 | Potential changes in other reserves 2009 £000 | 2008 £000 |
|---|---|---|---|---|---|
| *Group* | | | | | |
| Interest rate risk | -100 basis points | **10,461** | 12,704 | **136** | 238 |
| | +100 basis points | **(9,834)** | (12,724) | **(134)** | (228) |
| Currency risk | -5% | **3,930** | 2,739 | **4,012** | 3,366 |
| | +5% | **(3,733)** | (2,602) | **(3,811)** | (3,198) |
| Equity price risk | +/-5% | **11,198** | 8,413 | **-** | - |

The following assumptions have been made in preparing the above sensitivity analysis

- the value of fixed income investments will vary inversely with changes in interest rates, and all territories experience the same interest rate movement
- currency gains and losses will arise from a change in the value of sterling against all other currencies moving in parallel
- equity prices will move by the same percentage across all territories
- the above analysis is based only on exposures borne by the group, and thus excludes those of with profit and unit-linked business
- change in profit is stated net of tax at the standard rate of 28% (2008 28%)

**(i) Capital management**

The group's objectives when managing capital are

- to comply with the regulators' capital requirements of the markets in which the group operates
- to safeguard the group's ability to continue to meet stakeholders' expectations, in accordance with the charitable objectives of the Trust

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

In the UK, the group's UK regulated entities are required to comply with rules issued by the Financial Services Authority (FSA), and submit FSA returns detailing levels of regulatory capital held Regulatory capital should be in excess of the higher of two amounts The first is an amount which is calculated by applying fixed percentages to premiums and claims (general insurance business) or by applying fixed percentages to insurance liabilities and applying stress testing (long term business) The second is an economic capital assessment by the regulated entity, which the FSA reviews and may amend by issuing Individual Capital Guidance (ICG) The group sets internal capital standards above the FSA's minimum requirement For overseas business the relevant capital requirement is the minimum requirement under the local regulatory regime With the exception as noted below, all regulated entities within the group have complied with all externally imposed capital requirements throughout the current and prior year

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

Regulated subsidiaries are restricted in the amount of cash dividends they transfer to the parent entity, in order for them to meet their individual minimum capital requirements

The group's available capital resource is disclosed in note 22(b) part (iv)

# Allchurches Trust Limited

## Notes to the Financial Statements

**3 Exchange rates**

| The principal rates of exchange used for translation are | **2009** Average | Closing | 2008 Average | Closing |
|---|---|---|---|---|
| Canada | **C$ 1 78** | **C$ 1 69** | C$ 1 96 | C$ 1 77 |
| Republic of Ireland | **€ 1 12** | **€ 1 13** | € 1 26 | € 1 03 |
| Australia | **A$ 1 99** | **A$ 1 80** | A$ 2 18 | A$ 2 06 |

**4 Group segmental analysis**

**(a) General business premiums**

| | **2009** | | 2008 | |
|---|---|---|---|---|
| | **Gross** | **Net** | Gross | Net |
| | **£000** | **£000** | £000 | £000 |
| Direct | | | | |
| Accident | **7,108** | **6,753** | 6,993 | 6,615 |
| Motor | **28,960** | **27,233** | 29,362 | 27,523 |
| Property | **236,994** | **111,720** | 209,750 | 101,496 |
| Liability | **88,155** | **77,864** | 80,099 | 70,762 |
| | **361,217** | **223,570** | 326,204 | 206,396 |
| Reinsurance accepted and London market | **66,481** | **45,030** | 58,489 | 39,776 |
| Total | **427,698** | **268,600** | 384,693 | 246,172 |

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

| | | | | |
|---|---|---|---|---|
| United Kingdom | **312,181** | **201,688** | 292,619 | 190,987 |
| Australia and New Zealand | **80,539** | **41,298** | 65,058 | 35,032 |
| Canada | **23,615** | **16,991** | 17,447 | 12,967 |
| Other overseas | **11,363** | **8,623** | 9,569 | 7,186 |
| Total | **427,698** | **268,600** | 384,693 | 246,172 |

**(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 and Republic of Ireland

| **The analysis of long term business premiums written before reinsurance is·** | **2009** **£000** | 2008 £000 |
|---|---|---|
| **Life insurance business** | | |
| - Single premiums | **10,347** | 9,888 |
| - Regular premiums | **2,720** | 3,118 |
| **Annuity business** | | |
| - Single premiums | **3,747** | 2,800 |
| **Pension business** | | |
| Non-linked contracts | | |
| - Single premiums | **1,880** | 1,246 |
| - Regular premiums | **1,356** | 1,763 |
| **Permanent health insurance** | **73** | 100 |
| | **20,123** | 18,915 |
| **Gross new annualised regular premiums** | | |
| Life insurance | **379** | 110 |
| Pensions | **352** | 425 |
| | **731** | 535 |

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

### 4 Group segmental analysis (continued)

**(c) Profit/(loss) before taxation**

| | 2009 £000 | 2008 £000 |
|---|---|---|
| United Kingdom | **58,449** | (36,884) |
| Australia and New Zealand | **5,951** | 5,456 |
| Canada | **2,298** | 1,907 |
| Other overseas | **2,547** | 1,530 |
| Total | **69,245** | (27,991) |

**(d) Net assets**

| | 2009 £000 | 2008 £000 |
|---|---|---|
| United Kingdom | **262,927** | 235,953 |
| Australia and New Zealand | **43,125** | 35,323 |
| Canada | **31,303** | 28,280 |
| Other overseas | **3,952** | 2,210 |
| Total | **341,307** | 301,766 |

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

**(e) Total assets**

Of the total assets shown on page 18, £335 2 million (2008 £307 0 million) are attributable to the long term business fund

### 5 Investment return

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **General business** | **Long term business** | General business | Long term business |
| *Group* | **£000** | **£000** | £000 | £000 |
| Land and buildings | **1,904** | **299** | 1,715 | 415 |
| Income on financial assets not at fair value through profit and loss | **1,985** | **1,039** | 14,296 | 3,070 |
| Income on financial assets at fair value through profit and loss | **33,070** | **12,167** | 30,515 | 12,324 |
| Income from associated undertaking | **970** | **-** | - | - |
| Realised investment gains | **-** | **-** | - | 7,876 |
| Investment income | **37,929** | **13,505** | 46,526 | 23,685 |
| Investment expenses and charges | | | | |
| Interest payable on financial liabilities, at amortised cost | **999** | **353** | 1,001 | 252 |
| Other investment management expenses | **1,786** | **664** | 1,352 | 544 |
| Total investment management expenses, including interest | **2,785** | **1,017** | 2,353 | 796 |
| Realised investment losses | **9,529** | **2,715** | 1,035 | - |
| Investment expenses and charges | **12,314** | **3,732** | 3,388 | 796 |
| Net investment return | **25,615** | **9,773** | 43,138 | 22,889 |

Included within income on financial assets not at fair value through profit and loss are exchange losses of £949,000 (2008 £6,597,000 gains) for the general business, and exchange losses of £39,000 (2008 £1,150,000 gains) for the long term business

Interest payable on financial liabilities includes debenture interest payable of £780,000 (2008 £780,000)

**6 Group expenses**

| | 2009 General business £000 | 2009 Long term business £000 | 2008 General business £000 | 2008 Long term business £000 |
|---|---|---|---|---|
| **(a) Net operating expenses** | | | | |
| Commission paid on direct business | **58,136** | **1,314** | 50,195 | 789 |
| Other acquisition costs | **23,215** | **2,238** | 20,378 | 1,937 |
| Change in deferred acquisition costs | **(3,111)** | **(98)** | (1,462) | 162 |
| Administrative expenses | **57,299** | **2,297** | 61,009 | 2,410 |
| Reinsurance commissions and profit participation | **(42,555)** | **(669)** | (33,660) | (932) |
| | **92,984** | **5,082** | 96,460 | 4,366 |
| **(b) Other charges** | | | | |
| Amortisation of goodwill and other intangibles | **3,581** | - | 2,129 | - |
| Other expenses | **3,211** | - | 33 | - |
| | **6,792** | - | 2,162 | - |

**7 Group operating profit or loss**

| | 2009 General business £000 | 2009 Long term business £000 | 2008 General business £000 | 2008 Long term business £000 |
|---|---|---|---|---|
| **Operating profit or loss has been arrived at after charging/(crediting)** | | | | |
| Net foreign exchange losses/(gains) | **949** | **39** | (6,597) | (1,150) |
| Depreciation - owned assets | **3,401** | **72** | 2,958 | 78 |
| - leased assets | **389** | **4** | 362 | 10 |
| Fair value (gains)/losses on investments designated at fair value through profit and loss | **(40,410)** | **(28,263)** | 45,689 | 47,074 |
| Fair value losses/(gains) on financial instruments held for trading | **9,644** | **6,518** | 1,787 | (491) |
| Interest payments under lease purchase contracts | **195** | **5** | 157 | 7 |

**8 Auditors' remuneration**

| | 2009 General business £000 | 2009 Long term business £000 | 2008 General business £000 | 2008 Long term business £000 |
|---|---|---|---|---|
| Fees payable to the company's auditor for the audit of the company's annual accounts | **3** | - | 3 | - |
| Fees payable to the company's auditor and its associates for other services | | | | |
| The audit of the company's subsidiaries, pursuant to legislation | **378** | **44** | 381 | 45 |
| | **381** | **44** | 384 | 45 |
| Other services pursuant to legislation | **106** | **71** | 108 | 67 |
| Tax services | **23** | **(9)** | 16 | 17 |
| Corporate finance services | - | - | 16 | - |
| All other services | **41** | - | 35 | - |
| Total auditors' remuneration | **551** | **106** | 559 | 129 |

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

# Allchurches Trust Limited

## Notes to the Financial Statements

**9 Employee information**

The company has no employees (2008 nil) The average monthly number of employees, including executive directors, employed by the group during the year, by geographical location was as follows

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | General business No | Long term business No | General business No | Long term business No |
| United Kingdom | **859** | **35** | 886 | 31 |
| Australia and New Zealand | **167** | **-** | 156 | - |
| Canada | **57** | **-** | 58 | - |
| Republic of Ireland | **19** | **-** | 22 | - |
| | **1,102** | **35** | 1,122 | 31 |

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Wages and salaries | **50,449** | 46,178 |
| Social security costs | **4,176** | 3,383 |
| Pension costs - defined contribution plans | **1,564** | 1,331 |
| Pension costs - defined benefit plans | **5,412** | 7,648 |
| Other post-employment benefits | **(1,115)** | (3,146) |
| | **60,486** | 55,394 |

**10 Directors' emoluments**

No trustee received emoluments from Allchurches Trust Limited during the year (2008 £nil) Certain trustees do however receive emoluments in their capacity as non-executive directors of subsidiary undertakings, as follows

| | 2009 £000 | 2008 £000 |
|---|---|---|
| The aggregate emoluments of the trustees in respect of services as non-executive directors of subsidiary undertakings | **34** | 68 |

The chairman was reimbursed £nil by the group (2008 £15,000) in respect of office running costs and the provision of secretarial assistance

No trustee was a member of the group's defined benefit pension schemes during the year (2008 nil)

### 11 Taxation

| | Long term business technical account | | Non-technical account | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| *Group* | **£000** | £000 | **£000** | £000 |
| UK corporation tax for the current financial year | **40** | 580 | **8,291** | 2,816 |
| Overseas tax | **-** | - | **3,212** | 1,749 |
| | **40** | 580 | **11,503** | 4,565 |
| Deferred tax | **600** | (3,860) | **7,325** | (11,276) |
| | **640** | (3,280) | **18,828** | (6,711) |

The non-technical account tax charge for the year includes an amount of £290,000 (2008 £nil) in respect of the group's associated undertaking

UK corporation tax in the long term business technical account has been calculated at rates between 20% and 28% (2008 20% and 28%) in accordance with the rates applicable to long term insurance business

The UK standard rate of corporation tax changed to 28% from 30% with effect from 1 April 2008, resulting in current tax being provided for at the blended standard rate of 28 5% in the prior year Deferred tax has been provided at the rate of 28% (2008 28%)

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

| | Non-technical account | |
|---|---|---|
| | **2009** | 2008 |
| | **£000** | £000 |
| Profit/(loss) on ordinary activities before tax | **69,245** | (27,991) |
| Tax on profit/(loss) on ordinary activities at standard rate | **19,389** | (7,977) |
| *Factors affecting charge for the year* | | |
| Unrealised investment movements and other timing differences | **(8,328)** | 10,175 |
| Dividends received | **(1,843)** | (1,362) |
| Expenses not deductible for tax purposes | **666** | 379 |
| Tax paid at non-standard rates | **3,621** | 3,640 |
| Adjustments to tax charge in respect of prior years | **(2,002)** | (290) |
| Total actual amount of current tax | **11,503** | 4,565 |

### 12 Charitable distributions

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

| | Company | | Group | |
|---|---|---|---|---|
| | **Distributions** | **Donations** | **Distributions** | **Donations** |
| | **£000** | **No.** | **£000** | **No** |
| Dioceses | **5,267** | **120** | **5,275** | **127** |
| Cathedrals | **599** | **143** | **599** | **143** |
| Parishes and other charities | **881** | **796** | **1,135** | **948** |
| Educational charities | **36** | **3** | **596** | **81** |
| | **6,783** | **1,062** | **7,605** | **1,299** |

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 £71 2 million (2008 £65 7 million) has been provided by group companies for church and charitable purposes

## Allchurches Trust Limited

## Notes to the Financial Statements

**13 Intangible assets**

| *Group* | Goodwill £000 | Other intangible assets £000 | Total £000 |
|---|---|---|---|
| Cost | | | |
| At 1 January 2009 | **21,063** | **3,826** | **24,889** |
| Acquisition during the year | **405** | **92** | **497** |
| At 31 December 2009 | **21,468** | **3,918** | **25,386** |
| Amortisation | | | |
| At 1 January 2009 | **5,445** | **445** | **5,890** |
| Provided in the year | **1,718** | **685** | **2,403** |
| At 31 December 2009 | **7,163** | **1,130** | **8,293** |
| Net book value | | | |
| At 31 December | **14,305** | **2,788** | **17,093** |
| At 1 January | 15,618 | 3,381 | 18,999 |

Goodwill arose on the acquisition of subsidiary undertakings During the year the group acquired 100% of the issued ordinary share capital of Animal Insurance Management Services Limited, an insurance brokerage business, giving rise to £497,000 of goodwill and other intangible assets

Other intangible assets consist of acquired customer and distribution relationships, which have an overall remaining useful life of 5 years on a weighted average basis

None of the intangible assets noted above relate to the parent company, or to the group's long term business

**14 Investments**

| *Group* | 2009 General business £000 | 2009 Long term business £000 | 2009 Total £000 | 2008 General business £000 | 2008 Long term business £000 | 2008 Total £000 |
|---|---|---|---|---|---|---|
| **Freehold land and buildings** | | | | | | |
| - occupied by the group | **3,226** | **350** | **3,576** | 3,982 | 350 | 4,332 |
| - other | **19,950** | **4,782** | **24,732** | 19,890 | 4,671 | 24,561 |
| | **23,176** | **5,132** | **28,308** | 23,872 | 5,021 | 28,893 |
| **Interest in associate** | **16,348** | - | **16,348** | - | - | - |
| **Other financial investments** | | | | | | |
| *Financial investments at fair value through profit and loss* | | | | | | |
| Equity securities | | | | | | |
| - listed | **216,517** | **131,303** | **347,820** | 166,313 | 107,697 | 274,010 |
| - unlisted | **23,437** | **96** | **23,533** | 22,511 | 300 | 22,811 |
| Debt securities | | | | | | |
| - government bonds | **281,046** | **104,767** | **385,813** | 340,843 | 101,134 | 441,977 |
| - listed | **144,089** | **69,069** | **213,158** | 118,806 | 57,447 | 176,253 |
| - unlisted | **294** | **294** | **588** | 283 | 283 | 566 |
| | **665,383** | **305,529** | **970,912** | 648,756 | 266,861 | 915,617 |
| *Loans and receivables* | | | | | | |
| Loans secured by mortgages | **14,292** | **9,167** | **23,459** | 15,338 | 13,603 | 28,941 |
| Other loans | **4,009** | **60** | **4,069** | 3,689 | 77 | 3,766 |
| | **18,301** | **9,227** | **27,528** | 19,027 | 13,680 | 32,707 |
| Total other financial investments | **683,684** | **314,756** | **998,440** | 667,783 | 280,541 | 948,324 |

**14 Investments (continued)**

The group's land and buildings were revalued at 31 December 2009 Valuations were carried out by Cluttons, an external firm of Chartered Surveyors, and were made on the basis of open market value

On 31 March 2009 the group acquired a 40% stake in Lycetts Holdings Limited Goodwill of £15,693,000 was paid on acquisition, and an amortisation charge of £1,177,000 for the period has been charged to the non-technical account within other charges Details of the shareholding in the group's associate are disclosed in note 30

Included in equity securities of the group's long term business are options with a fair value of £2,596,000 (2008 £4,081,000), that are classified as held for trading and are current Those debt securities and loans and receivables maturing within one year are disclosed in note 2(c) All other financial investments are non-current Equity and debt securities, excluding options, are designated by the group to be measured at fair value through profit and loss The directors consider that the carrying value of loans and receivables approximates to their fair value An analysis of other financial investments by FRS 26 measurement category is given in note 2(a)

*Parent*

| | Unrestricted funds | |
|---|---|---|
| **Shares in subsidiary undertakings** | **2009** | 2008 |
| | **£000** | £000 |
| Cost | | |
| At 1 January and 31 December | **50** | 50 |
| Revaluation | | |
| At 1 January | **281,071** | 300,892 |
| Revaluation of group undertakings | **35,184** | (19,821) |
| At 31 December | **316,255** | 281,071 |
| Net book value | | |
| At 31 December | **316,305** | 281,121 |
| At 1 January | **281,121** | 300,942 |

The above investments are unlisted, and include £43,125,000 (2008 £35,323,000) relating to subsidiary undertakings outside the UK

| | Endowment funds | |
|---|---|---|
| **Other financial investments** | **2009** | 2008 |
| | **£000** | £000 |
| Cost | | |
| At 1 January | **9,302** | 1,093 |
| Additions | **5,935** | 9,993 |
| Disposals | **(3,306)** | (1,784) |
| At 31 December | **11,931** | 9,302 |
| Revaluation | | |
| At 1 January | **(703)** | (46) |
| Gains/(losses) | **1,706** | (657) |
| At 31 December | **1,003** | (703) |
| Net book value | | |
| At 31 December | **12,934** | 8,599 |
| At 1 January | **8,599** | 1,047 |

Other financial investments are non-current, and consist of listed equity and debt securities, including £2,727,000 (2008 £1,013,000) relating to investments outside the UK

**15 Group derivative financial instruments**
The group utilises non-hedge derivatives to mitigate equity price risk arising from investments held at fair value

| Equity/Index contracts | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | **Contract/ notional amount £000** | **Fair value asset £000** | **Fair value liability £000** | Contract/ notional amount £000 | Fair value asset £000 | Fair value liability £000 |
| *General business* | | | | | | |
| Futures | **27,504** | **-** | **(644)** | 43,218 | - | (682) |
| *Long term business* | | | | | | |
| Futures | **23,574** | **-** | **(552)** | 19,438 | - | (317) |
| Options | **26,000** | **2,596** | **-** | 26,000 | 4,081 | - |
| Totals at 31 December | **77,078** | **2,596** | **(1,196)** | 88,656 | 4,081 | (999) |

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

Derivative fair value assets are recognised within other financial investments (note 14) and derivative fair value liabilities are recognised as creditors (note 26)

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

Included within group cash at bank and in hand are cash deposits of £3,610,000 (2008 £9,475,000) pledged as collateral by way of cash margins on open derivative contracts and cash to cover derivative liabilities On closure of these contracts any derivative liability position is settled, and collateral pledged on the margin ceases

**16 Group debtors arising out of insurance operations**
**(a) Group debtors arising out of direct insurance operations**

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | **General business £000** | **Long term business £000** | **Total £000** | General business £000 | Long term business £000 | Total £000 |
| Policyholders | **21,838** | **514** | **22,352** | 22,359 | 922 | 23,281 |
| Intermediaries | **59,617** | **-** | **59,617** | 48,696 | - | 48,696 |
| | **81,455** | **514** | **81,969** | 71,055 | 922 | 71,977 |

**(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

**16 Group debtors arising out of insurance operations (continued)**

**(c) Impairment of debtors**

The group has recognised a charge of £326,000 (2008 charge of £705,000) in the profit and loss account for the impairment of its insurance and other debtors during the year Impairments are recognised within administrative expenses with the exception of impairment of investments which are recognised within other charges

There has been no significant change in the credit quality of the group's debtors, for which no collateral is held The directors consider that the amounts are recoverable at their carrying values, which are stated net of an allowance for doubtful debts, based on historic experience of credit losses

Movement in the group allowance for doubtful debts

| | 2009 | 2008 |
|---|---|---|
| | £000 | £000 |
| Balance at beginning of year | **3,901** | 3,325 |
| Movement in the year | **467** | 576 |
| Balance at end of year | **4,368** | 3,901 |

The group allowance for doubtful debts includes a provision of £617,000 (2008 £206,000) in respect of debtors that are individually determined to be impaired based on an assessment of their ageing profile and credit rating at the reporting date

Included within insurance debtors of the group is £8,267,000 (2008 £4,342,000) overdue but not impaired, of which £6,834,000 (2008 £3,378,000) is not more than three months overdue at the reporting date

**17 Tangible assets**

*Group*

| | Computer equipment | Motor vehicles | Office equipment | Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Cost | | | | |
| At 1 January 2009 | **27,855** | **2,725** | **6,313** | **36,893** |
| Additions | **2,477** | **819** | **580** | **3,876** |
| Exchange movements | **534** | **-** | **203** | **737** |
| Disposals | **(4,505)** | **(833)** | **(710)** | **(6,048)** |
| At 31 December 2009 | **26,361** | **2,711** | **6,386** | **35,458** |
| Depreciation | | | | |
| At 1 January 2009 | **21,222** | **958** | **3,895** | **26,075** |
| Provided in the year | **2,592** | **460** | **814** | **3,866** |
| Exchange movements | **407** | **-** | **109** | **516** |
| Disposals | **(4,386)** | **(508)** | **(707)** | **(5,601)** |
| At 31 December 2009 | **19,835** | **910** | **4,111** | **24,856** |
| Net book value at 31 December 2009 | | | | |
| General business | **6,501** | **1,785** | **2,275** | **10,561** |
| Long term business | **25** | **16** | **-** | **41** |
| | **6,526** | **1,801** | **2,275** | **10,602** |
| Net book value at 1 January 2009 | | | | |
| General business | 6,535 | 1,743 | 2,418 | 10,696 |
| Long term business | 98 | 24 | - | 122 |
| | 6,633 | 1,767 | 2,418 | 10,818 |

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

### 18 Pension asset and retirement benefit obligations

*Defined benefit pension plans*

The group's main scheme is a non-contributory defined benefit scheme for UK employees The assets of the scheme are held separately from those of the group by the Trustee of the Ecclesiastical Insurance Office plc Staff Retirement Benefit Fund An independent qualified actuary appointed by the Trustee is responsible for undertaking triennial valuations which assess the financial position of the scheme Pension costs for the scheme are determined by the Trustee, having considered the advice of the actuary and having consulted with the Employer The most recent triennial valuation was at 31 December 2007 Ansvar Insurance Company Limited operates a non contributory defined benefit scheme, the contributions to which are determined with the advice of independent qualified actuaries on the basis of triennial valuations These schemes are registered with the Pensions Regulator Pension liabilities for the Republic of Ireland branch are dealt with by payment to an Irish life office Actuarial valuations have been reviewed and updated by the actuaries at 31 December 2009 for FRS 17 purposes All schemes are now closed to new entrants

The group also operates a number of defined contribution pension schemes, for which contributions by the group are disclosed in note 9

| | **2009** | 2008 |
|---|---|---|
| *Group* | **£000** | £000 |
| The amounts recognised in the balance sheet are determined as follows | | |
| Present value of funded obligations | **(190,985)** | (143,282) |
| Fair value of plan assets | **205,628** | 170,374 |
| Surplus | **14,643** | 27,092 |
| Related deferred tax liability | **(4,237)** | (7,674) |
| Net asset in the balance sheet | **10,406** | 19,418 |
| The amounts recognised in the consolidated profit and loss account are as follows | | |
| Current service costs | **4,916** | 7,134 |
| Gain on settlement | **-** | (825) |
| Past service costs | **496** | 1,339 |
| Total, included in net operating expenses | **5,412** | 7,648 |
| Expected return on scheme assets | **10,282** | 12,920 |
| Interest cost on scheme liabilities | **(9,067)** | (9,402) |
| Total, included in other finance income | **1,215** | 3,518 |
| The amounts recognised in the consolidated statement of total recognised gains and losses are as follows | | |
| Total actuarial losses | **(15,081)** | (1,678) |

The actual return on pension plan assets was a gain of £35,005,000 (2008 £22,900,000 loss)

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

| | **2009** | 2008 |
|---|---|---|
| Discount rate | **5 70%** | 6 50% |
| Inflation | **3 50%** | 3 20% |
| Expected return on plan assets | **6 00%** | 6 79% |
| Future salary increases | **5 00%** | 4 70% |
| Future pension increases | **3 50%** | 3 20% |

**18 Pension asset and retirement benefit obligations (continued)**

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

*Mortality rate*

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

| | 2009 | 2008 |
|---|---|---|
| Male | **23 9** | 23 6 |
| Female | **26 3** | 26 1 |

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

| | 2009 | 2008 |
|---|---|---|
| Male | **25 9** | 25 7 |
| Female | **28 3** | 28 2 |

| Plan assets are comprised as follows | 2009<br>£000 | 2008<br>£000 |
|---|---|---|
| Equities | **100,921** | 65,809 |
| Bonds | **75,819** | 66,747 |
| Cash | **19,981** | 28,247 |
| Other | **8,907** | 9,571 |
| | **205,628** | 170,374 |

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

| | 2009<br>£000 | 2008<br>£000 |
|---|---|---|
| *Scheme assets* | | |
| As at 1 January | **170,374** | 189,880 |
| Pension benefits paid and payable | **(6,348)** | (4,766) |
| Contributions paid | **6,780** | 7,589 |
| Expected return on scheme assets | **10,282** | 12,920 |
| Actuarial gains/(losses) | **24,723** | (35,820) |
| Exchange differences | **(183)** | 571 |
| As at 31 December | **205,628** | 170,374 |
| *Defined benefit obligation* | | |
| As at 1 January | **143,282** | 164,458 |
| Current service cost | **4,916** | 7,134 |
| Past service cost | **496** | 1,339 |
| Gain on settlement | **-** | (825) |
| Pension benefits paid and payable | **(6,348)** | (4,766) |
| Interest cost | **9,067** | 9,402 |
| Actuarial losses/(gains) | **39,804** | (34,142) |
| Exchange differences | **(232)** | 682 |
| As at 31 December | **190,985** | 143,282 |

**18 Pension asset and retirement benefit obligations (continued)**

| *History of group experience gains and losses* | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Present value of defined benefit obligations | (190,985) | (143,282) | (164,458) | (151,433) | (146,258) |
| Fair value of scheme assets | 205,628 | 170,374 | 189,880 | 172,365 | 148,166 |
| Surplus | 14,643 | 27,092 | 25,422 | 20,932 | 1,908 |
| Experience adjustments on scheme liabilities | (516) | 3,417 | 7,379 | (1,472) | (1,780) |
| Experience adjustments on scheme assets | 24,723 | (35,820) | 3,471 | 11,171 | 14,238 |

The cumulative amount of actuarial losses recognised in the consolidated statement of total recognised gains and losses since the 2002 financial year is £25,335,000 (2008 £10,254,000)

The contribution expected to be paid by the group during the year ending 31 December 2010 is £6 0 million

*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 amounts recognised in the balance sheet are determined as follows | **2009** | 2008 |
|---|---|---|
| | **£000** | £000 |
| Present value of unfunded obligations | **6,115** | 5,021 |
| Related deferred tax asset | **(1,712)** | (1,406) |
| Net obligations in the balance sheet | **4,403** | 3,615 |

The amounts recognised in the consolidated profit and loss account are as follows

| | | |
|---|---|---|
| Current service cost | **-** | 1,373 |
| Gain on settlement | **(1,115)** | (4,519) |
| Total, included in net operating expenses | **(1,115)** | (3,146) |
| Interest cost on scheme liabilities, included in other finance income | **277** | 679 |

The amounts recognised in the consolidated statement of total recognised gains and losses are as follows

| | | |
|---|---|---|
| Total actuarial (losses)/gains | **(2,093)** | 3,874 |

The movements in the obligations over the year are as follows

| | | |
|---|---|---|
| At 1 January | **5,021** | 11,452 |
| Current service cost | **-** | 1,373 |
| Benefits paid | **(161)** | (90) |
| Other finance income | **277** | 679 |
| Gain on settlement | **(1,115)** | (4,519) |
| Actuarial losses/(gains) | **2,093** | (3,874) |
| At 31 December | **6,115** | 5,021 |

The main actuarial assumption is a long term increase in medical costs of 12 0% (2008 8 0%)

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

| | **Increase** | **Decrease** |
|---|---|---|
| | **£000** | **£000** |
| Effect on the aggregate of the current service cost and interest cost | 83 | (65) |
| Effect on the medical benefit obligation | 1,463 | (1,126) |

**19 Reserves**

| | Translation reserve £000 | Profit and loss account £000 | Endowment funds £000 | Total £000 |
|---|---|---|---|---|
| *Group* | | | | |
| Balance at 1 January | 11,579 | 278,445 | 11,742 | 301,766 |
| Currency translation differences | 6,763 | - | - | 6,763 |
| Actuarial losses relating to pension asset | - | (15,081) | - | (15,081) |
| Movement on deferred tax relating to pension | - | 4,163 | - | 4,163 |
| Actuarial losses relating to other retirement benefits | - | (2,093) | - | (2,093) |
| Movement on deferred tax relating to other retirement benefits | - | 586 | - | 586 |
| Transfer from profit and loss account | - | 42,587 | 2,616 | 45,203 |
| Balance at 31 December | 18,342 | 308,607 | 14,358 | 341,307 |

| | Unrestricted funds | | | |
|---|---|---|---|---|
| | Income funds £000 | Revaluation reserve £000 | Endowment funds £000 | Total £000 |
| *Parent* | | | | |
| Balance at 1 January | 8,953 | 281,071 | 11,742 | 301,766 |
| Incoming resources | 8,534 | - | 469 | 9,003 |
| Outgoing resources | (6,793) | - | (8) | (6,801) |
| Revaluation of group undertakings | - | 35,184 | - | 35,184 |
| Other investment gains | - | - | 2,155 | 2,155 |
| Balance at 31 December | 10,694 | 316,255 | 14,358 | 341,307 |

Endowment funds are expendable endowments

**20 Reconciliation of movements in group shareholders' funds**

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Profit/(loss) for the financial year | 45,203 | (26,494) |
| Other recognised gains and losses relating to the year | (5,662) | 7,681 |
| Net movement in shareholders' funds | 39,541 | (18,813) |
| Opening shareholders' funds | 301,766 | 320,579 |
| Closing shareholders' funds | 341,307 | 301,766 |

**21 Minority interests**

Minority interests comprise 8 625% Non-Cumulative Irredeemable Preference shares in Ecclesiastical Insurance Office plc

**22 Insurance liabilities and reinsurance assets**

| *Group* | **2009 £000** | 2008 £000 |
|---|---|---|
| **Gross** | | |
| Claims outstanding | **522,570** | 531,931 |
| Unearned premiums | **214,496** | 190,570 |
| Long term business provision (including technical provision for linked liabilities) | **242,252** | 233,645 |
| Equalisation provision | **21,674** | 18,012 |
| Total gross insurance liabilities | **1,000,992** | 974,158 |
| **Recoverable from reinsurers** | | |
| Claims outstanding | **124,769** | 139,482 |
| Unearned premiums | **66,531** | 57,209 |
| Long term business provision (including technical provision for linked liabilities) | **2,591** | 2,230 |
| Total reinsurers' share of insurance liabilities | **193,891** | 198,921 |
| **Net** | | |
| Claims outstanding | **397,801** | 392,449 |
| Unearned premiums | **147,965** | 133,361 |
| Long term business provision (including technical provision for linked liabilities) | **239,661** | 231,415 |
| Equalisation provision | **21,674** | 18,012 |
| Total net insurance liabilities | **807,101** | 775,237 |

The equalisation provision, established in accordance with the Prudential sourcebook for Insurers, is required by Schedule 3 to SI2008/410 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 £21,674,000 (2008 £18,012,000) and decreased both the balance on the general business technical account and the profit before taxation for the year by £3,662,000 (2008 increase of £3,273,000)

**22 Insurance liabilities and reinsurance assets (continued)**
**(a) General business insurance contracts**
**(i) Reserving methodology**
Reserving for non-life insurance claims is a complex process and the group adopts recognised actuarial methods, and, where appropriate, other calculations and statistical analysis Actuarial methods used include chain ladder, the Bornhuetter-Ferguson and average cost methods

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

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

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

**(iii) Calculation of special provisions for latent claims**
The group adopts commonly used industry methods including those based on claims frequency and severity and benchmarking

**(iv) Assumptions**
The group follows a process of reviewing its reserves for outstanding claims on a quarterly basis This involves an appraisal of each portfolio with respect to ultimate claims liability for the recent exposure period as well as for earlier periods, together with a review of the factors that have the most significant impact on the assumptions used to determine the reserving methodology The work conducted on each portfolio is subject to an internal peer review and management sign-off process

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

**(v) Change in assumptions**
There are no significant changes in assumptions

**22 Insurance liabilities and reinsurance assets (continued)**

**(vi) Sensitivity of results**

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

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

| | | **2009** | | 2008 | |
|---|---|---|---|---|---|
| | | **Gross** | **Net** | Gross | Net |
| | | **£000** | **£000** | £000 | £000 |
| Liability | - UK | **19,300** | **17,100** | 17,600 | 15,500 |
| | - Overseas | **9,300** | **7,600** | 7,900 | 6,600 |
| Property | - UK | **6,400** | **3,900** | 7,900 | 4,800 |
| | - Overseas | **9,500** | **4,400** | 11,000 | 5,200 |
| Motor | - UK | **3,000** | **2,200** | 3 400 | 2 400 |
| | - Overseas | **300** | **100** | 300 | 200 |

**(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 table below shows the development of the estimate of ultimate net claims cost for these classes across all territories

| | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|
| *Group* | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| Estimate of ultimate claims | | | | | | | | | | |
| At end of year | 32,882 | 34 480 | 34,483 | 35 349 | 39 528 | 41 007 | 46 235 | 51 795 | 64 476 | |
| One year later | 32,098 | 29,269 | 30 253 | 34 867 | 32 780 | 40 976 | 43 107 | 48,432 | | |
| Two years later | 27,680 | 26,140 | 29,791 | 29 447 | 31,287 | 35,783 | 38 979 | | | |
| Three years later | 26,476 | 24,934 | 28 897 | 28 486 | 28 641 | 33 145 | | | | |
| Four years later | 24,423 | 21,787 | 26,142 | 27 840 | 25,665 | | | | | |
| Five years later | 23 011 | 20,393 | 25,018 | 24 560 | | | | | | |
| Six years later | 22 562 | 21 103 | 23 375 | | | | | | | |
| Seven years later | 23,405 | 21 378 | | | | | | | | |
| Eight years later | 24 006 | | | | | | | | | |
| Current estimate of ultimate claims | 24,006 | 21,378 | 23,375 | 24 560 | 25,665 | 33 145 | 38,979 | 48 432 | 64,476 | 304 016 |
| Cumulative payments to date | (20 880) | (17,286) | (19,101) | (17,703) | (14,715) | (11,031) | (8,713) | (4,793) | (1,049) | (115 271) |
| Outstanding liability | 3,126 | 4,092 | 4,274 | 6,857 | 10 950 | 22 114 | 30,266 | 43 639 | 63 427 | 188 745 |
| Liability in respect of earlier years | | | | | | | | | | 57 992 |
| Total net liability (for liability classes) included in insurance liabilities in the balance sheet | | | | | | | | | | 246,737 |

**22 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

| | **2009** | | 2008 | |
|---|---|---|---|---|
| | **With-profit** | **Non-profit** | With-profit | Non-profit |
| UK & overseas government bonds non-linked | **2 18%** | **3 09%** | 2 11% | 2 79% |
| UK government index-linked | **n/a** | **0 35%** | n/a | 1 29% |
| Corporate debt instruments non-linked | **3 59%** | **3 72%** | 4 16% | 4 15% |
| Corporate debt instruments index linked | **n/a** | **0 39%** | n/a | 1 36% |
| Equities and collective investment vehicles | **5 25%** | **n/a** | 5 30% | 5 04% |
| Loans secured by mortgages | **n/a** | **6 05%** | n/a | 6 03% |
| Cash and deposits | **0 23%** | **0 19%** | 0 98% | 1 31% |
| Land & buildings | **4 33%** | **4 87%** | 4 48% | 4 48% |

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

*Renewal expense level and inflation*
Numbers of policies in force and both projected and actual expenses have been considered when setting the base renewal expense level The unit renewal expense assumption for Funeral Plan business is £11 50 per annum (2008 £11 00 per annum) The unit renewal expense assumption for third-party administered term assurance business is £11 50 per annum (2008 £11 00 per annum) The base unit renewal expense assumption for other business increased to £73 00 per annum (2008 £66 00 per annum) The unit renewal expense assumption for overseas term assurance business is €28 00 per annum (2008 €26 67 per annum) The level of unit renewal expenses charged to the with-profit fund is set The non-profit fund bears any surplus or deficit

Expense inflation is set with reference to the index-linked UK government bond rates of return, and published figures for earnings inflation, and is assumed to be 4 6% per annum (2008 3 6%)

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

**(ii) Changes in assumptions**
Projected investment returns have been revised in line with the changes in the actual yields of the underlying assets As a result liabilities have increased by £2 8 million (2008 £3 7 million increase)

The effect on insurance liabilities of the changes to unit renewal expense assumptions (described in (i) above) for non-profit business, including Funeral Plan business, was a £0 5 million increase (2008 £0 1 million reduction) For with-profit business the effect was a £0 7 million increase (2008 £0 6 million reduction)

**22 Insurance liabilities and reinsurance assets (continued)**
**(iii) Sensitivity analysis**

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

| *Variable* | Change in variable | Potential increase/ (decrease) in profit 2009 £000 | 2008 £000 |
|---|---|---|---|
| Deterioration in annuitant mortality | -10% | **3,300** | 3,200 |
| Improvement in annuitant mortality | +10% | **(3,800)** | (3,700) |
| Increase in fixed interest/cash yields | +1%pa | **-** | (1,400) |
| Decrease in fixed interest/cash yields | -1%pa | **(100)** | 700 |
| Decrease in equity and property values | -5% | **(200)** | (100) |
| Worsening of base renewal expense level | +10% | **(2,000)** | (1,800) |
| Improvement in base renewal expense level | -10% | **1,800** | 1,800 |
| Increase in expense inflation | +1%pa | **(1,800)** | (1,400) |
| Decrease in expense inflation | -1%pa | **1,500** | 1,200 |

Changes to with-profit liabilities have no direct effect on total reserves

**(iv) Available capital resources**

| **2009** | **With-profit life fund £000** | **Non-profit life fund £000** | **Share-holders' fund £000** | **Total life business £000** | **Other activities £000** | **Group total £000** |
|---|---|---|---|---|---|---|
| Total reserves | **-** | **(1,139)** | **30,697** | **29,558** | **311,749** | **341,307** |
| Fund for future appropriations | **21,489** | **-** | **-** | **21,489** | **(8,383)** | **13,106** |
| Adjustments to assets/liabilities | **(1,054)** | **193** | **-** | **(861)** | **(7,795)** | **(8,656)** |
| Adjustments to actuarial liabilities | **-** | **(4,782)** | **-** | **(4,782)** | **-** | **(4,782)** |
| Group contingent loans | **-** | **8,000** | **-** | **8,000** | **(8,000)** | **-** |
| Total available capital resources | **20,435** | **2,272** | **30,697** | **53,404** | **287,571** | **340,975** |
| *Policyholder liabilities* | | | | | | |
| - with-profit business | **99,042** | **-** | **-** | **99,042** | | |
| - unit linked business | **-** | **48,909** | **-** | **48,909** | | |
| - other investment business | **-** | **2,912** | **-** | **2,912** | | |
| - other life insurance business | **-** | **140,620** | **-** | **140,620** | | |
| Net actuarial liabilities on balance sheet | **99,042** | **192,441** | **-** | **291,483** | | |

| 2008 | With-profit life fund £000 | Non-profit life fund £000 | Share-holders' fund £000 | Total life business £000 | Other activities £000 | Group total £000 |
|---|---|---|---|---|---|---|
| Total reserves | - | 3,578 | 27,442 | 31,020 | 270,746 | 301,766 |
| Fund for future appropriations | 15,874 | - | - | 15,874 | (5,076) | 10,798 |
| Adjustments to assets/liabilities | (1,270) | 361 | (840) | (1,749) | (18,184) | (19,933) |
| Adjustments to actuarial liabilities | - | (5,575) | - | (5,575) | - | (5,575) |
| Group contingent loans | - | 8,000 | - | 8,000 | (8,000) | - |
| Total available capital resources | 14,604 | 6,364 | 26,602 | 47,570 | 239,486 | 287,056 |
| *Policyholder liabilities* | | | | | | |
| - with-profit business | 105,322 | - | - | 105,322 | | |
| - unit linked business | - | 37,542 | - | 37,542 | | |
| - other investment business | - | 3,401 | - | 3,401 | | |
| - other life insurance business | - | 126,093 | - | 126,093 | | |
| Net actuarial liabilities on balance sheet | 105,322 | 167,036 | - | 272,358 | | |

**22 Insurance liabilities and reinsurance assets (continued)**

Total reserves of the non-profit fund represents the net profit or loss generated by this fund not transferred, to date, to the shareholders' fund The life shareholders' fund is the balance of group reserves 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 The adjustments to the non-profit fund net assets/(liabilities) are the elimination of both deferred acquisition costs and deferred income from investment contracts

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

The available capital 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 as a tool for determining capital requirements and their sensitivity to various risks The group manages these risks by means of its underwriting strategy, reinsurance strategy, investment strategy, and management control framework

**(v) Movements in life capital**

| | With-profit life fund £000 | Non-profit life fund £000 | Share-holders' fund £000 | Total life business £000 |
|---|---|---|---|---|
| **2009** | | | | |
| Published capital resources as at 31 December 2008 | 14,604 | 6,364 | 26,602 | 47,570 |
| Effect of new business | 735 | (1,857) | - | (1,122) |
| Variance between actual and expected experience | 4,653 | 1,459 | - | 6,112 |
| Effect of changes to valuation process | (119) | (4,028) | - | (4,147) |
| Effect of changes to valuation interest rates | 993 | 1,855 | - | 2,848 |
| Effect of changes to unit renewal expense assumptions | - | (1,377) | - | (1,377) |
| Effect of change to inflation assumption | (6) | (1,687) | - | (1,693) |
| Effect of changes to lapse assumptions | - | 694 | - | 694 |
| Effect of change to unit fund growth rate assumption | - | (37) | - | (37) |
| Other movements | (425) | 886 | 4,095 | 4,556 |
| Capital resources as at 31 December 2009 | 20,435 | 2,272 | 30,697 | 53,404 |

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

**22 Insurance liabilities and reinsurance assets (continued)**
**(c) Movements in insurance liabilities and reinsurance assets**

| *Group* | Gross £000 | Reinsurance £000 | Net £000 |
|---|---|---|---|
| **Claims outstanding** | | | |
| At 1 January 2009 | **531,931** | **(139,482)** | **392,449** |
| Cash (paid)/received for claims settled in the year | **(233,829)** | **68,936** | **(164,893)** |
| Change in liabilities/reinsurance assets | | | |
| - arising from current year claims | **282,991** | **(76,238)** | **206,753** |
| - arising from prior year claims | **(66,431)** | **24,117** | **(42,314)** |
| Exchange differences | **7,908** | **(2,102)** | **5,806** |
| At 31 December 2009 | **522,570** | **(124,769)** | **397,801** |
| **Provision for unearned premiums** | | | |
| At 1 January 2009 | **190,570** | **(57,209)** | **133,361** |
| Increase in the period | **208,639** | **(64,292)** | **144,347** |
| Release in the period | **(191,317)** | **57,527** | **(133,790)** |
| Exchange differences | **6,604** | **(2,557)** | **4,047** |
| At 31 December 2009 | **214,496** | **(66,531)** | **147,965** |
| **Long term business provision (including technical provision for linked liabilities)** | | | |
| At 1 January 2009 | **233,645** | **(2,230)** | **231,415** |
| Effect of new business during the year | **14,518** | **(1,236)** | **13,282** |
| Effect of claims during the year | **(27,149)** | **589** | **(26,560)** |
| Changes in assumptions | **6,951** | **-** | **6,951** |
| Change in methodology | **534** | **-** | **534** |
| Other movements | **13,753** | **286** | **14,039** |
| At 31 December 2009 | **242,252** | **(2,591)** | **239,661** |
| **Claims outstanding** | | | |
| At 1 January 2008 | 489,770 | (134,915) | 354,855 |
| Cash (paid)/received for claims settled in the year | (242,452) | 75,067 | (167,385) |
| Change in liabilities/reinsurance assets | | | |
| - arising from current year claims | 283,409 | (72,189) | 211 220 |
| - arising from prior year claims | (24,372) | 543 | (23,829) |
| Exchange differences | 25,576 | (7,988) | 17,588 |
| At 31 December 2008 | 531,931 | (139,482) | 392,449 |
| **Provision for unearned premiums** | | | |
| At 1 January 2008 | 179,468 | (52,076) | 127,392 |
| Increase in the period | 185,294 | (55,512) | 129,782 |
| Release in the period | (179,442) | 51,960 | (127,482) |
| Exchange differences | 5,250 | (1,581) | 3,669 |
| At 31 December 2008 | 190,570 | (57,209) | 133,361 |
| **Long term business provision (including technical provision for linked liabilities)** | | | |
| At 1 January 2008 | 240,231 | (2,268) | 237,963 |
| Effect of new business during the year | 11,882 | (1,522) | 10,360 |
| Effect of claims during the year | (29,216) | 911 | (28,305) |
| Changes in assumptions | (39) | - | (39) |
| Change in methodology | (748) | - | (748) |
| Other movements | 11,535 | 649 | 12,184 |
| At 31 December 2008 | 233,645 | (2,230) | 231,415 |

**22 Insurance liabilities and reinsurance assets (continued)**

**(d) Bonuses**

In 2009, profits allocated by the with-profit fund in the form of discretionary benefits amounted to £4,066,000 (2008 £5,553,000) 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%

**23 Investment contract liabilities**

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

| | **2009** **£000** | 2008 £000 |
|---|---|---|
| Current | **3,587** | 1,917 |
| Non-current | **48,235** | 39,026 |
| Total | **51,822** | 40,943 |

Investment contracts consist of unit-linked contracts and temporary annuities The benefits offered under the unit-linked contracts are based on the return from selected equities and debt securities The increase in liabilities during the year is a consequence of increases in the value of these assets

During the year there has been no change in the carrying value of these liabilities resulting from their credit risk (2008 £nil)

The amount of the change in the fair value of these liabilities that is not attributable to the change in the underlying assets is an increase of £1,200,000 (2008 an increase of £483,000)

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

**24 Provisions for other risks**

| *Group* | **Deferred tax £000** | **Regulatory levies £000** | **Restructuring and other provisions £000** | **Total £000** |
|---|---|---|---|---|
| At 1 January 2009 | 22,057 | 12,398 | 1,191 | 35,646 |
| Additional provisions | - | 1,667 | 101 | 1,768 |
| Used during year | - | (984) | (175) | (1,159) |
| Exchange differences | - | - | 32 | 32 |
| Other movements | 7,377 | - | - | 7,377 |
| At 31 December 2009 | 29,434 | 13,081 | 1,149 | 43,664 |

*Regulatory levies*

The group is required under the Financial Services Compensation Scheme to contribute towards any levies raised on UK general and life insurance business The amount of the levy is based on a proportion of UK written premium Following changes in the funding arrangements during the prior year, insurers may now also be required to contribute to levies arising from compensation paid to retail deposit holders The level of provision held reflects management's view of the total potential levies

*Restructuring and other provisions*

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

### 25 Deferred tax

| | 2009 | 2008 |
|---|---|---|
| *Group* | £000 | £000 |
| The potential net provision for deferred tax provided in the financial statements is as follows | | |
| Unrealised investment gains | **33,333** | 25,104 |
| Retirement benefit assets | **2,525** | 6,268 |
| Depreciation in excess of capital allowances | **(886)** | (1,166) |
| Other timing differences | **(6,386)** | (4,470) |
| Net provision for deferred tax | **28,586** | 25,736 |
| Movements in the net deferred tax provision are analysed as follows | | |
| At 1 January | **25,736** | 40,470 |
| Charged/(credited) to income | **7,925** | (15,136) |
| (Credited)/charged to equity | **(4,749)** | 664 |
| Exchange differences | **(326)** | (262) |
| At 31 December | **28,586** | 25,736 |
| The net provision for deferred tax is disclosed in the financial statements as follows | | |
| Amount included in provisions for other risks | **29,434** | 22,057 |
| Amount included in other debtors | **(3,373)** | (2,589) |
| Amount included in net pension assets | **4,237** | 7,674 |
| Amount included in retirement benefit obligations | **(1,712)** | (1,406) |
| | **28,586** | 25,736 |

The group has unused tax loss relief of £8,179,000 (2008 £8,019,000) arising from pension business and capital transactions No deferred tax asset has been recognised due to the unpredictability of future profit streams

### 26 Other creditors including taxation and social security

| | 2009 | 2008 |
|---|---|---|
| *Group* | £000 | £000 |
| *Amounts falling due within one year* | | |
| Derivative liabilities | **1,196** | 999 |
| Other creditors | **14,282** | 11,301 |
| Taxation | **7,327** | 2,549 |
| | **22,805** | 14,849 |
| *Amounts falling due after more than one year* | | |
| Debenture stock | **6,000** | 6,000 |
| Other creditors | **4,036** | 976 |
| | **10,036** | 6,976 |
| | **32,841** | 21,825 |
| Included in other creditors are obligations under lease purchase contracts due | | |
| In 1 year or less | **660** | 610 |
| Between 2 and 5 years | **1,036** | 976 |
| | **1,696** | 1,586 |

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

### 27 Notes to the cash flow statement

**(a) Reconciliation of group profit on ordinary activities before tax to net cash flow from operating activities**

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Profit/(loss) on ordinary activities before tax | **69,245** | (27,991) |
| Depreciation charges | **3,790** | 3,320 |
| Amortisation of goodwill and other intangibles | **3,581** | 2,129 |
| Share of profit of associate | **(970)** | - |
| Unrealised (gains)/losses on investments | **(39,773)** | 53,501 |
| Increase in net general insurance technical provisions | **10,691** | 27,546 |
| Loss relating to long term business | **4,891** | 4,932 |
| Loan interest payable | **780** | 780 |
| Other interest payable | **220** | 222 |
| Realised investment loss | **9,500** | 1,035 |
| Loss on sale of tangible fixed assets | **105** | 31 |
| Movement in other debtors and creditors | **(5,021)** | (3,391) |
| Exchange and other non-cash movements | **2,470** | (7,572) |
| Net cash inflow from operating activities | **59,509** | 54,542 |

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

| *Group* | At 1 January 2009 £000 | Cash flow £000 | Changes in long term business £000 | Exchange and other non-cash movements £000 | At 31 December 2009 £000 |
|---|---|---|---|---|---|
| Cash at bank and in hand | 135,686 | 57,002 | (12,375) | (2,303) | 178,010 |
| Shares and other variable yield securities | 296,821 | 7,563 | 23,403 | 43,566 | 371,353 |
| Fixed income securities | 651,503 | (37,329) | 10,812 | 2,101 | 627,087 |
| Land and buildings | 28,893 | 414 | 111 | (1,110) | 28,308 |
| | 1,112,903 | 27,650 | 21,951 | 42,254 | 1,204,758 |
| Loans due after one year | (6,000) | - | - | - | (6,000) |
| | 1,106,903 | 27,650 | 21,951 | 42,254 | 1,198,758 |

### 28 Operating leases

Group annual commitments and payments under non-cancellable operating leases were as follows

| | **2009** | | 2008 | |
|---|---|---|---|---|
| *Commitments* | **Premises £000** | **Equipment £000** | Premises £000 | Equipment £000 |
| Expiring | | | | |
| Within 1 year | **1** | **21** | 68 | 2 |
| Between 2 and 5 years | **1,718** | **22** | 708 | 35 |
| Over 5 years | **877** | **-** | 1,420 | - |
| Total | **2,596** | **43** | 2,196 | 37 |
| Payments included in operating expenses | **2,679** | **63** | 2,405 | 189 |

# Allchurches Trust Limited

## Notes to the Financial Statements

**29 Capital commitments**

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

| | **2009** | 2008 |
|---|---|---|
| | **£000** | £000 |
| Tangible assets | **306** | 49 |

**30 Subsidiary and associate undertakings**

The company's interest in group undertakings at 31 December 2009 is as follows

| **Subsidiary undertakings** | **Share capital** | **Holding of shares by Parent** | **Holding of shares by Subsidiary** |
|---|---|---|---|
| *Incorporated and operating in Great Britain, engaged in investment, insurance and financial services or other insurance related business* | | | |
| Ecclesiastical Insurance Group plc | Ordinary shares | 100% | - |
| Ecclesiastical Insurance Office plc | Ordinary shares | - | 100% |
| | 8 625% Non-Cumulative Irredeemable Preference Shares | - | 9% |
| Ecclesiastical Underwriting Management Limited | Ordinary shares | - | 100% |
| Allchurches Mortgage Company Limited | Ordinary shares | - | 100% |
| | 6% Non-Cumulative | - | |
| | Redeemable Preference Shares | - | 100% |
| Ansvar Insurance Company Limited | Ordinary shares | - | 100% |
| Ecclesiastical Financial Advisory Services Limited | Ordinary shares | - | 100% |
| Ecclesiastical Investment Management Limited | Ordinary shares | - | 100% |
| Ecclesiastical Life Limited | Ordinary shares | - | 100% |
| South Essex Insurance Brokers Limited | Ordinary shares | - | 100% |
| *Incorporated and operating in Great Britain, engaged in retail of goods and services* | | | |
| The Churches Purchasing Scheme Limited | Ordinary shares | - | 100% |
| Ecclesiastical Risk Services Limited | Ordinary shares | - | 100% |
| *Incorporated and operating in Australia, engaged in insurance business* | | | |
| Ansvar Insurance Limited | Ordinary shares | - | 100% |
| *Incorporated and operating in New Zealand, engaged in insurance business* | | | |
| Ansvar Insurance Limited | Ordinary shares | - | 100% |

**30 Subsidiary and associate undertakings (cont)**

| **Associate undertaking**<br>*Incorporated and operating in Great Britain, engaged in insurance broking business* | **Share capital** | **Holding of shares by Parent** | **Holding of shares by Subsidiary** |
|---|---|---|---|
| Lycetts Holdings Limited | Ordinary shares | - | 40% |

| Group's share of | **2009 £000** | 2008 £000 |
|---|---|---|
| Revenue | **4,732** | - |
| Expenses | **(3,762)** | - |
| Profit before tax | **970** | - |
| Tax charge | **(290)** | - |
| Profit after tax | **680** | - |
| Share of fixed assets | **331** | - |
| Share of current assets | **6,955** | - |
| Share of liabilities falling due within 1 year | **(5,454)** | - |

In addition, at the year end there were eight other wholly owned subsidiary undertakings whose assets and contribution to group income were not significant

All the entities 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, 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 wholly owned group companies

Related party transactions with the group's associated undertaking, Lycetts Holdings Limited, consisted of commission paid of £333,000 (2008 £nil) At the balance sheet date a trading balance owed by the group to its associate was £110,000 (2008 £nil)

In addition, during the year £53,000 (2008 £135,000) school fee annuities were paid by the group to Beaufort House Trust Limited, an educational charity related by common control and registered at the same address Of this, £2,000 (2008 £9,000) was prepaid at the balance sheet date This has been accounted for in the long term business technical account The amount owed by the group to Beaufort House Trust Limited at the balance sheet date was £68,000 (2008 £26,000) In the current year the group also made a donation to Beaufort House Trust Limited of £18,000 (2008 £18,000) net of tax relief