ECCLESIASTICAL

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ECCLESIASTICAL INSURANCE GROUP plc

REPORT AND ACCOUNTS 31 DECEMBER 2002

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Mark Cornwall-Jones

Mark Cornwall-Jones joined the Board of the Ecclesiastical in 1979. He became Deputy Chairman and Chairman of the Finance and Investment Committee in 1983 and succeeded Alan McLintock as Chairman of the Company in 1993.

His period as Chairman over the last ten years has seen substantial change both to the Ecclesiastical itself and the insurance industry as a whole. These changes have embraced, inter alia, greater use of technology, the creation of new savings products, increased corporate governance and regulation as well as a wider spread of business and increased competitive pressures. His tenure began when the UK was emerging from recession and continued through the overheated bull markets of the late 90's to the depressed world economy in the early years of this century and the uncertain state of the world today.

During his ten year period as Chairman, gross premium income has more than doubled to £334 million as have shareholders' funds, which have risen to £101 million. Perhaps most importantly, charitable grants of £33.5 million have been made to Allchurches Trust for distribution to dioceses and parishes and other charitable organisations.

Mark's detailed knowledge of investment markets, his ability to analyse opportunities and threats with clarity and apply a steady hand to the tiller have been of invaluable help to his Board and managers. His open and courteous approach has won him friends everywhere. On a personal note, it has been a great pleasure to serve as his deputy.

Mark's knowledge and advice will not be lost to us, as he will continue to serve on the Board of our ultimate parent company, Allchurches Trust Limited. The company owes him a debt of gratitude, not only for his long and valuable service on the Board, but for his commitment and wisdom as Chairman.

W. H. Yates
Deputy Chairman

Chairman's Statement

As insurers and reinsurers worldwide grappled with the task of rebuilding their capital strength in the wake of several years of inadequate profitability from general business underwriting and the terrorist attacks in New York and Washington on September 11th, 2001, further sharp and sustained falls in stock markets compounded the difficulties already faced by the industry. The severity of the decline has in addition brought immense pressure on the Life Assurance industry in this country at the very time when the shape of its future role in the retail savings market is the subject of fundamental review. All of these factors have combined to make 2002 one of the most challenging years on record and it is against that background that I report to you on the progress of the Ecclesiastical.

In terms of financial performance, the key figures drawn from the consolidated profit and loss accounts and balance sheets on pages 18 to 23 are set out with comparable information for 2001 and 2000.

	2002 **£million**	*2001* *Restated* *£million*	*2000* *Restated* *£million*
Gross Premium Income (General and Long Term)	**333.6**	*304.1*	*271.7*
Balance on General Business Technical Account	**1.9**	*(15.4)*	*(23.3)*
Investment Income	**17.7**	*16.7*	*17.3*
General Business Result before Investment Gains and Losses	**19.6**	*1.3*	*(6.0)*
Realised Investment Gains	**4.7**	*3.6*	*12.7*
Unrealised Investment Losses	**(29.2)**	*(23.7)*	*(14.7)*
Total Investment Losses	**(24.5)**	*(20.1)*	*(2.0)*
Balance on Long Term Business Technical Account	**1.2**	*1.1*	*2.4*
Loss Attributable to Shareholders	**(7.6)**	*(19.3)*	*(5.7)*
Grant to Allchurches Trust (net of tax)	**(2.8)**	*(2.8)*	*(2.8)*
Retained Loss	**(10.4)**	*(22.1)*	*(8.5)*
Shareholders' Funds	**100.5**	*113.1*	*137.4*

I draw the attention of shareholders to the principal features of these results. Growth in overall premium income has been slower at 9.7% than in recent years, held back by a reduction in premiums from the long term business. At 11%, positive growth in general insurance has, however, been maintained supported by the continued application of premium rate increases across the organisation. This action and the other underwriting measures we have steadily taken over the last three years have successfully strengthened the rating base of our general insurance business enabling us to continue the strongly improving trend in underwriting performance. The positive balance on the general business technical account of £1.9 million is a most welcome and encouraging outcome, with virtually all areas of our operations having achieved better results.

On the investment side we have suffered from the further severe fall in equity prices during the year of 24.5% as measured by the FTSE 100 Index. The effect has been mitigated to a degree by our sequential decisions to reduce exposure to equity markets with a consequent growth in income and value from our increased holdings of fixed interest investments and cash. Whilst our investment portfolios have continued to perform well in comparison to relevant stock-market indices, the inescapable result is that we have taken a charge of £29.2 million for unrealised losses through the profit and loss account in accordance with the requirements of the ABI SORP.

Chairman's Statement

The timing of the results emerging from our determined strategy to improve the profitability of our general insurance operations has fortunately coincided with this latest period of stock-market weakness and, combined with our policy of reducing equity holdings, has limited the reduction in shareholders' funds. These stood at £101 million compared to £113 million at the previous year end and in solvency terms our margin of 63% has stood up well to the buffeting. Payment of dividends to preference shareholders and the charitable grant to Allchurches Trust have been met from the improved profits of the year's trading operations but the Ecclesiastical Insurance Office Board decided not to recommend a dividend on the ordinary shares which are owned by Ecclesiastical Insurance Group.

Producing profit and service for the benefit of the Church of England and its partner churches is the primary purpose of the Ecclesiastical's mission. It was, nevertheless, only after careful consideration of the Company's financial strength and the future prospects for its business that the Board felt justified in maintaining its charitable grant of £4 million to Allchurches Trust, which it is anticipated will be available to fund distributions by the Trust to the Church at large in 2003.

I have commented before on the dangers inherent in relying on unsustainable levels of investment return as a substitute for an appropriate profit from the business of underwriting. After three years of declining stock-markets and continuing economic uncertainty, it is clear that this message is now widely understood. Our own established focus on growing balance sheet strength through positive returns from our underwriting operations has been reiterated following a regular review by the Board of the future strategic direction of the Ecclesiastical. This is a robust process which includes a careful assessment of the prospects for the various parts of our business and required rates of return. It leads to the implementation of plans designed to meet appropriate financial targets whilst providing all our customers with the high standard of service that will help to reinforce the positive differentiation which the Ecclesiastical seeks to maintain and deserve. In this way we can ensure that the business is run in a way that continues to provide secure protection for all our policyholders and that we develop the human and financial resources needed to fulfil our mission.

The emphasis I have placed on the need to underwrite at a profit through increased insurance premiums does, I know, create pressures on our policyholders and has led generally to public debate, especially in relation to the cost of liability insurance both here and abroad. The pressures are, however, genuine in the industry as a whole and largely unavoidable. There are no signs of relief from the unremitting increase in the size of personal injury claims settlements which are rising in excess of 10% per annum. New causes of action and continued legal reform are adding to the size and uncertainty of the costs to be met from liability premiums. To these factors must be added the imperceptible but steady shift by the Treasury of social cost from the public purse onto the insurance industry. As our own figures show, there is also greater volatility in claims experience due to the more frequent incidence of weather events and large fire losses. When these trends are coupled with the significant reduction in available capital brought about by weaker investment returns there is no option but for insurance premiums to rise. If they do not, the ability of the industry to play its part in the economy by securely shouldering risk on behalf of policy-holders and to absorb ever larger exposures will be impaired. These macro-economic influences are evident in the results of the Ecclesiastical reported in these accounts.

Details of the progress made in the various parts of the organisation can be read in the Managing Director's review of group operations on pages 6 to 9. I would like however to comment briefly on a few areas of particular interest.

Like most insurance companies, the Ecclesiastical depends on reinsurance to help it manage risk and protect its capital base. Our philosophy of seeking enduring relationships with secure partners is of long standing and has enabled us to maintain a high quality panel of reinsurers for 2003. Although costs have increased overall once more, adding in turn to the need for us to charge higher premiums, we believe that the security and extent of the protection purchased continue to be appropriate to the needs of the business and the interests of policyholders.

In a year of well publicised difficulty for the Life Assurance industry as a whole, the progress made towards implementation of our strategy to equip the Group's financial services operation so that it is able to compete effectively in the changing market conditions inevitably slowed. Developing an effective financial services capability is an area of strategic importance to our mission and it remains high on the Board's agenda to ensure that our aim to provide specialist advice to those in the church can be met. Whilst we do, naturally, regret the need to reduce bonuses on our with-profit policies, all pay-outs on maturities continue to represent a real gain to policyholders in excess of the average rate of inflation, to which our investment performance relative to others has contributed positively. Policyholders should recognise that returns in nominal terms inevitably come down in a period of low inflation and interest rates.

Chairman's Statement

The changes facing the life sector proposed by the FSA and the Treasury are wide-ranging and will ultimately have a dramatic impact on the way the retail savings industry develops. Current proposals are steering towards product regulation through the implementation of price caps. Whilst we are encouraged by the willingness of the Government to hear the arguments about the impact of such controls, the objective of helping more people to make proper provision for retirement will not be achieved if there is not an adequate reward for the capital providers nor a reduction in conduct of business regulation commensurate with the simplified nature of the new generation products.

As this is my valedictory statement as Chairman perhaps I may be allowed to reflect for a moment on my conviction that there is a need for more maturity and balance in the statements and actions of politicians, officials, regulators and consumer interests when addressing the after-effects of the late bull market in equities – after, it should be remembered, a lengthy period of hyperinflation which seriously damaged the value of savings. City practitioners of long standing have had to live with periods of excess before and recognise and accept that corrective measures are required. However, all are interested in and dependent upon a strong financial sector, one of the most important in the UK economy, and it is surely now time to look forward rather than backwards. Financial markets may on occasion be slow to react to fiscal and regulatory changes, but in the end they will, and the result may not be as palatable as their promoters intended. I urge those in authority to work with the grain of experience and seek to harness the best instincts latent in all. As an industry we need to speak with a stronger voice and deserve a more attentive hearing in the present debate if the outcome is to stand the test of time.

The Ecclesiastical has come through an extremely testing year and will be seen, I believe, to have emerged in a sound condition. The immediate outlook is one of continuing uncertainty as world events unfold in the Middle East and it is right that I should sound a cautionary note about the future. Looking forward from a business viewpoint, however, we need to build on the foundations we have successfully laid and to sustain the improvement in the profitability of the general insurance business we have achieved. We have a clear view on the direction of our future development and I am confident that the Ecclesiastical will be in safe hands when I hand over as Chairman after the Annual General Meeting on 26 June to Nick Sealy.

Nick Sealy joined the Board in 1999 after a distinguished career as Chairman of Smith & Williamson. He brings a wide experience in the fields of banking, accounting and finance, skills which are all highly relevant to our affairs. I hand over the baton to him in the confidence that the business will flourish under his guidance.

I am privileged to have been a director of the Ecclesiastical and have enormously enjoyed my period of service. I have learned and benefited from the advice of successive generations of colleagues and friends on the Board and amongst the management team. I express my gratitude to all for their unfailing support and kindness. In thanking Graham Doswell for his commitment and leadership over the last year, which I do, I also thank through him all those who work for the Ecclesiastical and who have upheld with honour the reputation of our Company.

Mark Cornwall-Jones
Chairman

Review of Group Operations

The most notable achievement in 2002 has been the further significant improvement in the results of our general insurance operations. The turn-around this year in underwriting performance to the positive balance of £1.9 million (after equalisation provisions of £3.8 million) reported in the technical account for general business has helped to cushion the impact of falling equity investment values on shareholders' funds.

A generally heightened awareness of risk and the need for stronger technical profits from underwriting to bolster insurers' balance sheets have contributed to favourable market conditions. These, in turn, have enabled us to make continued progress towards raising premiums across the Group to the levels justified by the heavy losses suffered by all insurers in recent years. Whilst the out-turn for 2002 is a very welcome reward for the considerable efforts we have been making for some time, this performance will need to be sustained if the capital committed to the insurance business is to earn an adequate return.

The higher premium levels already mentioned have contributed to the increase in gross premium income of 11% but, at the net level, the growth rate of 4% has been suppressed by the increased cost of reinsurance protection purchased in all territories. The combined ratio on an earned basis was 97% prior to equalisation charges.

Global equity markets fell for the third successive year in 2002. Although we have fared better in comparison to relevant benchmark indices, we are reporting an unrealised loss on investments of £29.2 million.

After the payment of dividends and a maintained charitable grant of £4 million to Allchurches Trust, shareholders' funds at the end of the year stood at £101 million compared to £113 million previously. The equivalent solvency margin was reduced to 63% but, on the statutory basis of measurement, remained well in excess of the level appropriate to our business profile.

The uncertain economic background has affected the general level of sales of investment products across the industry and our growth in financial services slowed in line with this overall trend. Long term premiums written were 11% lower than in 2001 but there was another profitable result from our proprietary life subsidiary, Allchurches Life, which contributed almost £1 million to the profit and loss account.

General Business - United Kingdom

The strong recovery in underwriting results continued in 2002 with a profitable and well deserved out-turn to the year's trading. The further remedial action that was needed has been closely targeted on poorly performing parts of the business while premium rating levels have been rising generally to offset the upward trend in claims and reinsurance costs. Gross premium income in Ecclesiastical's UK retail division increased by 12% to £177 million and the combined ratio improved to 93% from 103%.

Although the year was not marked by any major weather event, the total cost of weather-related claims was the second highest in the last ten years and approached the level recorded in 2000 when the country was affected by widescale flooding. The results achieved are, therefore, all the more satisfactory. Nevertheless the worsening trend in weather losses is a cause for concern and emphasises the need for fast implementation of the Government's commitment to improve flood defences.

Unusual events do, however, create practical opportunities to show our customer service policy in action. We were particularly pleased to have been honoured in November by the Trustees of Mayville School in Southsea, policyholders since 1987, on the opening of a new building to replace classrooms irreparably damaged by flooding in 2000. In recognition of the service provided by our claims team, the replacement building has been named "Ecclesiastical House". This one event out of so many is tangible evidence of the consistently high levels of customer satisfaction recorded in our annual surveys.

Though improving, results in the liability account require further attention not least to keep pace with the high cost of personal injury claims which continue to rise faster than the normal rate of price inflation. There has been considerable publicity surrounding the reported problems faced by both businesses and charitable organisations in obtaining liability cover but we believe that the issues relate to cost rather than availability. In our view, a proactive approach to risk management will be of considerable help in meeting needs in this area.

There has been a special focus in the wide range of risk management services provided by our specialist team of surveyors on helping policyholders comply with the requirements of Health and Safety legislation. The publication of a draft policy statement and guidance notes directed specifically to the particular impact of this legislation on churches has been very well received and is another example of the value-added services we supply to this important group of customers. Similar support has been provided to our partnership brokers for the benefit of our small business policyholders.

Measured solely in terms of the numbers of churches we insure, our relationship with the Anglican Church has strengthened further. Of equal importance is the very positive feedback we receive on the quality of all-round service provided which we value greatly and work hard to achieve. Although church insurance is also subject to the general upward pressure of rising claims and other costs, we are doing our best to contain premium increases.

Throughout the year there was considerable uncertainty about the basis on which it would be possible to maintain cover against acts of terrorism as insurance and reinsurance markets came to terms with the aftermath of the attack on the World Trade Center. In the event we were able to make cover available in line with the changes successfully negotiated between the Treasury and Pool Reinsurance Company Limited albeit subject to some residual exclusions.

General Insurance - International

The group of businesses comprising overseas branches and agencies, reinsurance accepted and London market operations progressed strongly as their results benefited from continuation of the wide-ranging corrective action already in place. Despite the adverse effects of a number of large church fires in the business we manage for the Methodist Insurance Company, the overall underwriting result improved substantially to a loss of £2.1 million after the £8.1 million loss reported in 2001. The combined ratio was 103% and gross premiums written grew by 3% to £93 million.

Stringent action to increase premium rates and tighten underwriting acceptance criteria had the effect of reducing premium income written by our Canadian branch and the size of our portfolio. Despite rising insurance costs and the largest single risk loss in our Canadian experience, the strategy has been successful in improving the underwriting result to a loss of £0.5 million from £2.2 million in 2001. In local currency, gross premiums written declined by 11%.

In Ireland, our branch had another successful year. Supported by rate increases, growth in premium income was strong and there was an increase in underwriting profitability. The process of conversion to the euro was completed smoothly.

There has been further change in the scope of our commitment to the London market. Our active association with Gerling Global General and Reinsurance Company has come to an end after its parent company was placed into run-off. In addition, our exposure to transit business has been considerably scaled down. Results of the successful facultative property portfolio underwritten through Ecclesiastical Underwriting Management Limited have developed positively with significant growth being achieved through the application of rate increases. The underwriting result from all our London market operations, including discontinued businesses, was a profit of £0.8 million.

The results of our partnership with the Baptist and Methodist insurance companies are included within our portfolio of inwards reinsurance accepted. The co-operative working arrangements we enjoy have continued to flourish. Good progress was made in the year towards migrating the businesses on to a more cost-effective systems platform and towards building an enhanced risk-management capability that should benefit all parties in the long run. The underwriting outcome in 2002, though, was disappointing being badly affected by an exceptional sequence of five major fires in Methodist churches with a total gross estimated cost in excess of £3 million.

There was an improvement in the underwriting performance of the accounts produced by our agency businesses managed by G. A. P. Vassilopoulos Group and John Makriyiannis & Son Ltd. in Cyprus, SMS Insurance Agency in Malta and W. A. Hienfeld in Holland. Some further action is required and we are working positively with our partners in the areas concerned.

General Insurance - Subsidiary Companies

Ansvar Insurance Company in the UK is positioned to meet the insurance needs of organisations in the "not for profit" sector. It has had another successful year achieving a profitable underwriting result after providing for equalisation charges and contributing a pre-tax profit of £0.8 million to the Group. Gross premium growth has been strong rising by 27% to £14 million and has been assisted by premium rate increases across the portfolio.

In accordance with the terms of the agreement under which we acquired the United Reformed Church Insurance Company in December 2000, the name of this subsidiary was changed to Ecumenical Insurance Company Limited last December.

In Australia, EIG-Ansvar, also made strong progress achieving a profitable result overall in an extraordinarily challenging market environment. The difficulties constraining capacity elsewhere in the world were compounded by the effects of the previous failure in Australia of that country's leading liability insurer and the ever-rising expectations of compensation from accident victims. The response has been a further significant increase in premium rates and recognition of the need for reform of legal systems by State Governments.

Our subsidiary has performed well in these difficult conditions and was able to increase premiums to contain the impact of significant rises in the cost of reinsurance. During the year, EIG-Ansvar successfully applied for re-authorisation as required generally by the provisions of the General Insurance Reform Act (2001). Business trends in New Zealand followed a similar pattern of premium growth generated by rate increases although there was some planned increase in exposure. Results were satisfactory but a deterioration in the motor portfolio held back progress.

Reserving Standards

There has been a net addition of £3.8 million to the statutory provision for claims equalisation compared to £2.4 million in 2001. The total provision now stands at £9.9 million. This amount is available to smooth the effect of exceptional claims experience in future years and may be released according to the application of a prescribed formula. It is excluded from calculation of the solvency margin.

Standards for the calculation of levels of reserves have been maintained in accordance with established practice as described in the notes to the accounts.

Long Term Business

The progress we have made over recent years slowed in 2002 in an environment of considerable economic uncertainty and poorly performing stock-markets for the third year in a row. Consumer confidence and our ability to plan for the future were also impaired by the exceptionally high number of regulatory and other reviews that are in the course of fundamentally re-shaping the distribution systems and product offerings of the financial services industry in the UK.

Despite continued development of initiatives designed to help our financial services division to compete successfully in this evolving market-place, sales performance slowed. New business premiums declined by 5% on the industry standard measure compared to 1% growth for the industry as a whole. Sales performance overall was also weaker with a fall in single premium business offsetting a modest increase of 3% in gross sales of OEIC funds, growth in mortgage sales and increased commission earnings from our specialist IFA, Hinton and Wild, in the equity release market. Commissions received from another provider whose stakeholder pension we adopted in 2001 have also risen but we are concerned about the inadequacy of the margin available to support the full advice process which still frequently precedes the recommendation of this product. The Directors' valuation of our proprietary life subsidiary, Allchurches Life, included in the balance sheet has been reduced to £4 million (from £5 million) reflecting a continued lower level of sales activity. This amount represents the estimated present value of future profits yet to emerge.

The very sharp falls in stock-markets had to be reflected by adjustments to bonus rates payable on participating with profits policies. Final bonuses were reduced for policies maturing from July onwards and again in September and it has also been necessary to reduce regular bonuses following the declaration made for 2002. One key objective of our with profits fund is to smooth the reduction in bonuses when investment values fall sharply as they have done over the last three years and we believe that, despite the reductions made, with profits policyholders have been protected by this process. As at 1st January 2003 all policyholders are receiving returns in excess of the average rate of inflation. For policy periods of fifteen years and longer, the excess ranges between 4% and 6% compound per annum. At shorter durations, ten year policies are returning 1.8% above the corresponding average inflation rate of 2.4%.

In a year of considerable challenge for the financial services sector as a whole, we have paid close attention to the strength of the Group's funds in relation to the regulatory requirements for solvency which are drawn on a conservative basis relative to contractual liabilities. As a result of the variety of measures we have taken, the actuarial valuations undertaken as at year-end demonstrate that these requirements continue to be met. Whilst it is not our policy to use complex financial instruments, use was made of hedging to protect the value of shares held in the Life Fund. This action successfully achieved the intended purpose.

Finance and Investment

The early recovery in stock-markets after the economic shocks of 2001 was short-lived and indices fell sharply after the end of the first quarter. The erosion of investor confidence was fuelled by accounting scandals, largely in the USA, concerns about the prospects for a global economic recovery and continued downgrades in the expectations for corporate earnings. Increasing tension about the possible failure to implement by peaceful means United Nations resolutions concerning Iraq also overshadowed sentiment. As well as the considerable falls, investment markets were characterised by high levels of volatility.

Investment strategy continued to be kept under close review and, after a careful assessment, decisions were made to reduce the equity content of our investment portfolios. We were able to take advantage of market volatility when adjusting to new asset allocations. Most sales were made at prices above the levels prevailing at the end of 2002. Supported by the proceeds of strong cash flow from general insurance operations, new investment was directed primarily to fixed interest securities. Corporate borrowings were also reduced by £5 million.

The improved cash flow and increased holdings of bonds and cash has helped to lift investment earnings. After excluding gains on the realisation of investments, which were slightly up at £4.7 million compared to £3.6 million in 2001, investment income increased by 6.5%.

Against the background of very difficult investment conditions, our funds performed well relative to peer groups and equivalent benchmarks. In particular, our retail funds had another successful year with all five maintaining their first quartile ranking on a total return basis over the one year period to 31 December. In addition, we were presented with two prestigious awards - the Citywire Fund Group of the year in the overall equity category and first place in the UK Marketed Funds category by Standard & Poor's.

The prolonged period of stock-market weakness and sharp decline in equity investment values since their peak in 1999 have had a profound effect on the economics of the insurance industry. Whilst there have been some publicly expressed concerns about the consequences of these events, the action we have been taking to manage risk by increasing premium rates and reducing exposure to equity investments has been largely successful in preserving Ecclesiastical's financial strength. Although shareholders' funds have fallen, we believe that our solvency margin remains at a prudently high level.

Regulatory Developments

The pace of regulatory reform of the insurance industry as a whole quickened in 2002 and we face a continued programme of change on a quite unprecedented scale over the next few years. The amount of time invested in raising consciousness of the importance of effective systems of risk management across the Group has been considerable but has, we believe, paid dividends in the context of our relationship with the FSA as well as with relevant regulatory authorities overseas. In the UK there remains concern about the cost of the new regime and the real likelihood of it weighing disproportionately on the smaller firms in the regulated community. It is vital in the interests of preserving a thriving and profitable business which serves its customers well that the benefits of continued regulatory change genuinely outweigh the costs of implementation.

Conclusion

We have managed our business in 2002 through a period of major regulatory change and economic uncertainty. The strategic direction to which we had already committed has, however, enabled us to achieve a worthwhile improvement in our trading performance and to achieve our mission to provide profit and service to the Church. More work is needed to consolidate the substantial progress made in so many areas so that Ecclesiastical can continue to prosper in a fundamentally changed and evolving market. We believe we are well placed to be the best specialist insurer in our chosen sectors offering a secure, credible and customer-focused service.

The hard work of everyone in the Group has played a vitally important role in the success we have achieved in a turbulent year. My sincere thanks go to all our staff across our wide span of operations and to our customers for their support and understanding.

Graham Doswell
Managing Director

Directors and General Management

Directors

* M. R. Cornwall-Jones MA, ACIS *Chairman*
* W. H. Yates FRICS *Deputy Chairman and Senior Independent Director*
* N. J. E. Sealy *Deputy Chairman*
* The Venerable N. Baines BA *Archdeacon of Lambeth*
* D. Christie BA, BSc (Econ) Dip.Ed.
* The Very Revd. N. G. Coulton BD *Sub-Dean of Christ Church Cathedral, Oxford*
G. V. Doswell FCII *Managing Director*
* D. R. Losse MA
G. A. Prescott BA, FCA *Group Executive Director*
* M. C. D. Roberts MA, CA
* H. H. Scurfield MA, FIA

General Management

G. V. Doswell FCII *Managing Director*
G. A. Prescott BA, FCA *Group Executive Director*
K. Bogue MA, FIA
K. J. Burdett FCII
M. Goodale BA, FIA
F. J. Holland MBCS
W. J. Lumsden FCCA
W. G. Shearn BA, FCII

Appointed Actuary

I. J. Stirrups FIA

Company Secretary

Mrs R. J. Hall ACIS

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Trustee for Debenture Stock

The Law Debenture Trust Corporation plc,
Fifth Floor
100 Wood Street
London EC2V 7EX

* *Non-Executive and Independent Directors*

Directors' Biographies

M. R. Cornwall-Jones, *Chairman*
Appointed to the Board in 1979, and became Chairman in 1993. He was appointed Treasurer of the Corporation of Church House in 2002. He is Chairman of Capital Gearing Trust and a Director of other companies. He also acts as a Trustee of a number of charities and pension funds. *Aged 70*.

W. H. Yates, *Deputy Chairman*
Appointed to the Board in 1985 and became a Deputy Chairman in 1995. He was Senior Partner of Knight Frank and Deputy Chairman of Woolwich plc. *Aged 67.*

N. J. E. Sealy, *Deputy Chairman*
Appointed to the Board in 1999 and became a Deputy Chairman in September 2002. He retired as Chairman of Smith & Williamson, a firm of Chartered Accountants and a banking and investment house, in 2000 but remains a non-executive Director. *Aged 64.*

N. Baines, *Archdeacon of Lambeth*
Appointed to the Board in 2002. Prior to ordination he was a professional government linguist. He serves on the General Synod of the Church of England and the Board of Mission. He regularly broadcasts on the BBC. *Aged 45.*

D. Christie
Appointed to the Board in 2001. He has been Warden of St Edward's School, Oxford since 1988. Previously he taught and researched in economics in schools and universities in the United Kingdom and Europe. He is a Governor of several schools. *Aged 60.*

N. G. Coulton, *Sub-Dean of Christ Church Cathedral, Oxford*
Appointed to the Board in 1997. Until January 2003, Dean of Newcastle where he was a Governor of two independent schools and represented the Faith Communities on the North East Assembly. Prior to ordination he was a solicitor. He is a member of the Church of England Legal Advisory Commission and on the Executive of the Association of English Cathedrals. *Aged 62.*

G. V. Doswell, *Managing Director*
Joined the group in 1984. Appointed to the Board in 1995 and became Chief Executive in 1997. His other directorships include The Baptist Insurance Company PLC, Methodist Insurance PLC and Pool Reinsurance Company Limited. Member of the Board, Association of British Insurers. A Vice President, the Chartered Insurance Institute. *Aged 57.*

D. R. Losse
Appointed to the Board in 2002. Until 2000 he was Deputy Chairman of international reinsurance broker, the Benfield Group plc, and retired as an Adviser to that company in 2002. A past President of the Insurance Institute of London and a past Master of the Worshipful Company of Insurers. He is Chairman of Eton End School Trust and is actively involved with a number of other charities. *Aged 65.*

G. A. Prescott, *Group Executive Director*
Appointed to the Board in 1995 and became Group Executive Director in 1997. He serves on the investment committees of the Save the Children Fund and of the Worshipful Company of Coopers. He is a Director of Martin Currie Income and Growth Trust plc and Mapfre Re. *Aged 58.*

M. C. D. Roberts
Appointed to the Board in 1992. He was a partner in KPMG, Chartered Accountants, until 1991 and subsequently Treasurer of Guildford Cathedral. He is a Director of CCLA Investment Managers Ltd and also Chairman of the Church Commissioners Audit Committee. *Aged 64.*

H. H. Scurfield
Appointed to the Board in 1994. He was the Actuary and a Director of the Norwich Union Insurance Group until 1992. A past President of the Institute of Actuaries. He is Vice Chairman of the Royal Shrewsbury Hospitals NHS Trust and Deputy Chairman of Help the Hospices. *Aged 67*.

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

Principal activity

The principal activity of the company is that of an investment holding company. Its principal subsidiary is Ecclesiastical Insurance Office plc. That company and its life assurance subsidiary, Allchurches Life Assurance Limited, transact most forms of general and long term insurance. A list of the company's subsidiary undertakings is given on page 44.

Review of the year and future developments

These are described in the chairman's statement and the managing director's review of group operations.

Results

The results of the group for the year and the appropriations are shown in the consolidated profit and loss account on page 20.

Dividends

The directors do not recommend the payment of a dividend for the year ended 31 December 2002 *(2001:nil)*.

Directors

The directors of the company at the date of this report are stated on page 10. The Very Revd. N. G. Coulton, Mr G. V. Doswell and Mr W. H. Yates retire by rotation and, being eligible, offer themselves for re-election.

Mr M. R. Cornwall-Jones retires from the board on 26 June 2003.

Mr D. R. Losse and The Venerable N. Baines were appointed to the board on 27 June 2002. In accordance with the articles of association, they retire at the forthcoming annual general meeting and, being eligible, offer themselves for election.

Mr N. J. E. Sealy will be appointed as chairman with effect from 26 June 2003.

Directors' interests

The interests of the directors, all of which are beneficial, in the 2.8% First Cumulative Preference shares of Ecclesiastical Insurance Office plc are as follows:

	Interest at 31.12.2002	*Interest at 1.1.2002 or date of appointment*
	No.	*No.*
M. R. Cornwall-Jones	**500**	*500*
W. H. Yates	**500**	*500*
N. J. E. Sealy	**500**	*500*
The Venerable N. Baines	**500**	*500*
D. Christie	**500**	*500*
The Very Revd. N. G. Coulton	**500**	*500*
G. V. Doswell	**500**	*500*
D. R. Losse	**500**	-
G. A. Prescott	**1,000**	*1,000*
M. C. D. Roberts	**500**	*500*
H. H. Scurfield	**500**	*500*

No director had an interest in any other shares or debentures of the group as at 31 December 2002. There has been no change in these interests since the end of the financial year to the date of this report. No contract of significance subsisted during or at the end of the financial year in which a director was or is materially interested.

Ownership

At 23 April 2003 the entire equity capital of the company was owned by Allchurches Trust Limited.

Charitable and political donations

Charitable donations given by the company and its subsidiary undertakings in the year amounted to £4.1 million (*2001:£4.1 million*).

During the last five years, a total of £21.6 million has been provided by group companies for church and charitable purposes.

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

Employees

The group recognises the importance of employee communication and aims to keep employees informed about its affairs through the use of briefings 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.

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. Ecclesiastical Insurance Group plc holds the investments in the group companies, does not trade and does not have suppliers within the meaning of the Companies Act 1985. The number of days' purchases represented by the amounts due to trade creditors of the main operating companies in the United Kingdom at 31 December 2002, calculated in accordance with Schedule 7 of the Companies Act 1985, was 9.8 days (*22.2 days*).

Corporate governance

The Ordinary shares of the company are not quoted on the Stock Exchange and therefore its operations do not come within the ambit of the Combined Code issued by the London Stock Exchange in June 1998. However, the board of directors of the company intends and believes that the affairs of the company should be conducted in accordance with best business practice, and uses Section 1, subsection A-Directors, of the Combined Code, by which Stock Exchange quoted companies are measured, to review performance in this area.

Board of directors

The board comprises the chairman, M. R. Cornwall-Jones, eight other non-executive directors and two executive directors and has ten scheduled meetings each year. The board is responsible for the overall strategic direction of the group. Executive management of the group is delegated to the managing director and general management team. The board has an established audit and compliance committee and a remuneration and appointments committee, details of which are given on page 14.

Audit and compliance committee

The audit and compliance committee comprises the following directors, appointed by the board:

M. C. D. Roberts *Chairman*
M. R. Cornwall-Jones
D. R. Losse
H. H. Scurfield
N. J. E. Sealy
W. H. Yates

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

Remuneration and appointments committee

The remuneration and appointments committee comprises the following directors, appointed by the board:

M. R. Cornwall-Jones *Chairman*
The Venerable N. Baines
D. Christie
The Very Revd. N. G. Coulton
D. R. Losse
M. C. D. Roberts
H. H. Scurfield
N. J. E. Sealy
W. H. Yates

The committee meets when necessary to consider all aspects of remuneration paid to the executive directors and general management team.

The board itself determines the level of fees paid to the non-executive directors, following consultation with the managing director.

Remuneration policy

The group's objectives are broadly the same for all employees, that is to provide competitive remuneration packages, relevant to the particular market in which it operates, that will attract and retain high calibre employees and will encourage and reward superior performance.

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

Executive directors and general management

The remuneration of the executive directors and general management team comprises a basic salary, pension contributions, annual bonuses at the discretion of the remuneration and appointments committee and certain benefits in kind, including a company car. Other available benefits in kind consist of a mortgage subsidy and private medical insurance, on the same terms as for all eligible staff. There are no incentive or share option schemes.

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

Service contracts

No director or general manager has a service contract with the company.

Pensions arrangement

The executive directors are members of the group's defined benefits pension scheme.

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

Overseas branches

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

Internal controls

The board is ultimately responsible for the systems of internal controls maintained by the group. The systems of internal controls are considered to be appropriate to the group and are intended to provide reasonable assurance, but not an absolute guarantee, against material errors, financial misstatements or loss. The key features of the control systems are as follows:

- The board approves financial, business and investment strategies and plans, reviews exposure limits and then monitors the results on a regular basis.

- The group operates a comprehensive annual budgetary control system which monitors results against business plans on a monthly basis. Monthly business and investment reports are submitted to the board, and financial results are reported to the board on a quarterly basis.

- The group has an internal audit function whose role is to review and monitor the various control mechanisms. The internal audit manager reports to the manager of the corporate governance department and has direct access to the managing director and to the chairman of the audit committee.

Going concern

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

Auditors

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

By order of the board

R. Hall

Mrs R. J. Hall
Secretary

23 April 2003

Statement of Directors' Responsibilities

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

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

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

Independent Auditors' Report

Independent auditors' report to the members of Ecclesiastical Insurance Group plc

We have audited the financial statements of Ecclesiastical Insurance Group plc for the year ended 31 December 2002 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the statement of accounting policies and the related notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

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

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

Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

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

Equalisation reserves

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amounts set aside at 31 December 2002, and the effect of the movement in those reserves during the year on the balance on the general business technical account and loss on ordinary activities before taxation, are disclosed in note 22.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the company's affairs and of the group as at 31 December 2002, and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche

Chartered Accountants and Registered Auditors

3 June 2003

London

2003

Consolidated Profit and Loss Account

for the year ended 31 December 2002

TECHNICAL ACCOUNT - GENERAL BUSINESS		Notes	2002 £000	2001 £000
Gross premiums written		3(a)	313,685	281,649
Outward reinsurance premiums			(109,463)	(85,773)
Net premiums written		3(a)	204,222	195,876
Change in the gross provision for unearned premiums			11,039	11,625
Change in the provision for unearned premiums, reinsurers' share			(2,566)	(4,859)
Change in the net provision for unearned premiums			8,473	6,766
Earned premiums, net of reinsurance			195,749	189,110
Claims paid	- gross amount		167,947	177,376
	- reinsurers' share		(55,067)	(60,470)
			112,880	116,906
Change in the provision for claims	- gross amount		15,265	33,370
	- reinsurers' share		(1,491)	(12,057)
			13,774	21,313
Claims incurred, net of reinsurance			126,654	138,219
Net operating expenses		5(a)	63,456	63,867
Total technical charges			190,110	202,086
Balance on the technical account before equalisation provision			5,639	(12,976)
Change in the equalisation provision		22	(3,782)	(2,421)
Balance on the technical account for general business			1,857	(15,397)

All the amounts above are in respect of continuing operations.

Consolidated Profit and Loss Account

for the year ended 31 December 2002

TECHNICAL ACCOUNT - LONG TERM BUSINESS		Notes	2002 £000	*2001 Restated* *£000*
Gross premiums written		3(b)	**19,925**	*22,498*
Outward reinsurance premiums			**(522)**	*(255)*
Earned premiums, net of reinsurance			**19,403**	*22,243*
Investment income		4	**32,899**	*19,605*
Unrealised losses on investments			**(58,670)**	*(32,895)*
Total technical income			**(6,368)**	*8,953*
Claims paid	- gross amount		**32,012**	*36,152*
	- reinsurers' share		**(166)**	*(445)*
			31,846	*35,707*
Change in the provision for claims	- gross amount		**685**	*(375)*
	- reinsurers' share		**(34)**	*1*
			651	*(374)*
Claims incurred, net of reinsurance			**32,497**	*35,333*
Change in other technical provisions				
Long term business provision	- gross amount		**(8,361)**	*(2,952)*
	- reinsurers' share		**175**	*(3)*
			(8,186)	*(2,955)*
Technical provision for linked business			**(4,074)**	*3,096*
Change in other technical provisions, net of reinsurance			**(12,260)**	*141*
Net operating expenses		5(a)	**5,569**	*6,096*
Investment expenses and charges			**610**	*510*
Tax attributable to long term business		9	**(2,484)**	*(2,543)*
Allocated investment return transferred to the non-technical account			**(1,231)**	*797*
Transfer from the fund for future appropriations			**(30,276)**	*(32,526)*
			(27,812)	*(27,666)*
Total technical charges			**(7,575)**	*7,808*
Balance on the technical account for long term business			**1,207**	*1,145*

All the amounts above are in respect of continuing operations.

Consolidated Profit and Loss Account

for the year ended 31 December 2002

NON-TECHNICAL ACCOUNT	Notes	2002 £000	2001 £000
Balance on the general business technical account		1,857	*(15,397)*
Balance on the long term business technical account		1,207	*1,145*
Tax attributable to the shareholders' long term business profits	9	517	*490*
		3,581	*(13,762)*
Investment income	4	22,359	*20,693*
Unrealised losses on investments		(29,172)	*(23,670)*
Allocated investment return transferred from the long term business technical account		(1,231)	*797*
Investment expenses and charges		(1,054)	*(1,413)*
Other operations		18	*118*
Other charges	5(b)	(1,530)	*(1,842)*
		(10,610)	*(5,317)*
Operating loss		(3,247)	*(16,658)*
Change in equalisation provision	22	(3,782)	*(2,421)*
Loss on ordinary activities before tax	3(c)	(7,029)	*(19,079)*
Tax on loss on ordinary activities	9	(1,852)	*(2,154)*
Loss on ordinary activities after tax		(5,177)	*(16,925)*
Minority interests	19	2,458	*2,330*
Loss attributable to shareholders		(7,635)	*(19,255)*
Charitable grants net of tax relief	10	2,835	*2,835*
Retained loss for the financial year	17	(10,470)	*(22,090)*

Non-equity interests included in minority interests are disclosed in note 19 to the accounts

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2002

	Notes	2002	2001
Loss attributable to shareholders		(7,635)	*(19,255)*
Revaluation of long term business		(1,000)	*(1,000)*
Currency translation differences		(1,137)	*(850)*
Total recognised gains and losses for the financial year	18	(9,772)	*(21,105)*
Prior period adjustment	23	(366)	-
Total recognised gains and losses since last annual report		(10,138)	*(21,105)*

Consolidated Balance Sheet

at 31 December 2002

ASSETS	Notes	2002 £000	*2001* *£000*
Intangible assets			
Goodwill	11	2,519	*2,994*
Investments			
Land and buildings	12	19,021	*22,456*
Shares in group undertakings	12	250	*250*
Shares in participating interest	12	41	*41*
Other financial investments	12	486,040	*563,300*
Value of long term insurance business		4,000	*5,000*
		509,352	*591,047*
Assets held to cover linked liabilities	13	30,959	*35,033*
Reinsurers' share of technical provisions			
Provision for unearned premiums		29,614	*27,295*
Long term business provision	20	1,242	*1,416*
Claims outstanding	21	95,855	*93,938*
		126,711	*122,649*
Debtors			
Debtors arising out of direct insurance operations	14(a)	51,793	*52,035*
Debtors arising out of reinsurance operations	14(b)	15,625	*36,411*
Other debtors		1,721	*2,770*
		69,139	*91,216*
Other assets			
Tangible assets	15	11,358	*13,192*
Cash at bank and in hand		132,160	*81,033*
		143,518	*94,225*
Prepayments and accrued income			
Accrued interest and rent		4,913	*4,970*
Deferred acquisition costs		17,247	*16,698*
Other prepayments and accrued income		2,520	*3,678*
		24,680	*25,346*
Total assets	3(e)	906,878	*962,510*

Consolidated Balance Sheet

at 31 December 2002

	Notes	2002	*2001 Restated*
LIABILITIES		£000	*£000*
Capital and reserves			
Called up share capital	16	20,000	*20,000*
Long term business reserve	17	4,000	*5,000*
General reserve	17	5,500	*5,500*
Profit and loss account	17	71,020	*82,627*
Equity shareholders' funds	18	100,520	*113,127*
Minority interests	19	28,077	*28,076*
Fund for future appropriations		11,600	*41,876*
Technical provisions			
Provision for unearned premiums		117,240	*106,766*
Long term business provision	20	214,655	*223,000*
Claims outstanding	21	334,059	*319,446*
Equalisation provision	22	9,938	*6,156*
		675,892	*655,368*
Technical provision for linked liabilities		30,959	*35,033*
Provisions for other risks and charges	23	10,004	*18,969*
Deposits received from reinsurers		24	*1,052*
Creditors			
Creditors arising out of direct insurance operations		2,034	*2,195*
Creditors arising out of reinsurance operations		16,931	*34,679*
Other creditors including taxation and social security	24	23,080	*25,490*
		42,045	*62,364*
Accruals and deferred income		7,757	*6,645*
Total liabilities		906,878	*962,510*

Parent Company Balance Sheet

at 31 December 2002

	Notes	2002	*2001*
			Restated
		£000	*£000*
Intangible assets			
Goodwill		12	*32*
Fixed assets: investments			
Shares in subsidiaries		106,038	*119,506*
Shares in participating interest		41	*41*
		106,079	*119,547*
Current assets			
Taxation		275	*270*
Other debtors		8	*10*
Cash at bank and in hand		5,412	*9,583*
		5,695	*9,863*
Creditors			
Amounts falling due within one year:			
Other creditors		266	*315*
Net current assets		5,429	*9,548*
Total assets less current liabilities		111,520	*129,127*
Creditors			
Amounts falling due after more than one year:			
Debenture stock	24	6,000	*6,000*
Corporate business loan	24	5,000	*10,000*
		11,000	*16,000*
Net assets		100,520	*113,127*
Capital and reserves			
Share capital	16	20,000	*20,000*
Revaluation and other reserves	17	66,666	*80,135*
Profit and loss account	17	13,854	*12,992*
Equity shareholders' funds		100,520	*113,127*

The financial statements on pages 18 to 45 were approved by the board of directors on 23 April 2003 and signed on their behalf by

M. R. Cornwall-Jones

M. R. CORNWALL - JONES *Chairman*

G. V. Doswell

G. V. DOSWELL *Managing Director*

Consolidated Cash Flow Statement

for the year ended 31 December 2002 (excluding long term insurance business)

	Notes	2002 £000	*2001* *£000*
Net cash inflow from operating activities	25(a)	49,789	*35,116*
Servicing of finance			
Loan interest paid		(1,320)	*(1,358)*
Preference dividends paid		(2,458)	*(2,330)*
Other interest paid		(111)	*(150)*
Taxation paid		(1,207)	*(687)*
Capital expenditure		(915)	*(2,114)*
Acquisitions and disposals		1	*1,531*
Charitable grants paid		(2,035)	*(1,435)*
Financing			
Capital element of lease purchase rental payments		(425)	*(391)*
Repayment of corporate business loan		(5,000)	*-*
	25(b)	36,319	*28,182*
Cash flows were invested as follows:			
Increase in cash holdings		20,316	*24,911*
Portfolio investment			
Purchases of shares and other variable yield securities		5,471	*6,189*
Purchases of fixed income securities		111,807	*25,838*
Purchases of properties		11,990	*2,448*
Sales of shares and other variable yield securities		(34,599)	*(11,574)*
Sales of fixed income securities		(74,693)	*(18,012)*
Sales of properties		(3,973)	*(1,618)*
Net investment of cash flows		36,319	*28,182*
Movement arising from cash flows		36,319	*28,182*
Repayment of corporate business loan		5,000	*-*
Movement in long term business		(39,780)	*(36,734)*
Changes in market values and exchange rate effects		(30,181)	*(22,563)*
Total movement in portfolio investments net of financing		(28,642)	*(31,115)*
Portfolio investments net of financing 1 January		686,113	*717,228*
Portfolio investments net of financing 31 December	25(b)	657,471	*686,113*

Accounting Policies

Basis of preparation

The financial statements have been prepared in accordance with Section 255A of, and Schedule 9A to, the Companies Act 1985. As permitted by Section 230 of the Act, a separate profit and loss account for the company is not presented. The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and with the material recommendations of the Statement of Recommended Practice issued by the Association of British Insurers.

Change in accounting policy

The provisions of Financial Reporting Standard 19 'Deferred Tax' have been adopted for the first time in these financial statements. As a consequence, full provision has been made for deferred tax on tax assets and liabilities arising on timing differences. The effect of this change in accounting policy is disclosed in note 23.

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. 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.

Foreign exchange

Foreign currency revenue transactions and assets, liabilities and reserves are translated at rates of exchange ruling at the balance sheet date except for certain revenue transactions which are translated at the actual rate obtained on exchanging each currency for sterling. Surpluses and deficits arising from the translation at those rates of exchange of the branch current accounts are taken directly to reserves as being outside the company's normal trading activities. Exchange profits and losses which arise from normal trading activities are taken to the non-technical 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 accounts to the extent that it is probable that a levy will be raised and a reasonable estimate of its amount can be made. The charge for any such provision is included within administrative expenses.

General business technical account

Premiums

The annual basis of accounting has been adopted except for London market and certain inwards reinsurance business. Under the annual basis of accounting, written premiums, gross of commission payable to intermediaries, comprise the premiums on contracts entered into during a financial year, regardless of whether such amounts may relate in whole or in part to a later financial year.

The fund basis of accounting has been applied to London market and certain inwards reinsurance business because the nature of the business is such that an underwriting result cannot be established with sufficient accuracy using the annual basis. Under the fund basis of accounting, written premiums, gross of commission payable to intermediaries, comprise premiums receivable in respect of contracts commencing in the financial year. The excess of premiums written over claims and expenses paid in respect of business commencing in an underwriting year is carried forward as a technical provision as part of outstanding claims. A profit is not recognised until the end of the second year following the underwriting year of account to which that business relates. Any anticipated underwriting losses are recognised as soon as they are foreseen.

Premiums written include adjustments to premiums written in prior periods and estimates for pipeline premiums and are shown net of insurance premium taxes. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or inwards reinsurance business.

Unearned premiums

For business accounted for on the annual basis, the provision for unearned premiums comprises the amount representing that part of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro rata method and taking into account the risk profile of the contracts.

General business technical account (continued)

Unexpired risks

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

Claims incurred

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

Claims outstanding

Outstanding claims provisions are based on the estimated ultimate cost of claims incurred but not settled by the balance sheet date, whether reported or not, including related settlement costs. The ultimate cost of claims cannot be known with certainty at the balance sheet date. Estimates are selected which are deemed to be prudent within the range of possible outcomes. Further details of estimation techniques are included in note 21. Any differences between provisions and subsequent settlements are dealt with in the technical accounts of later years.

Deferred acquisition costs

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

Equalisation provision

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

Long term business technical account

Premiums

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

Claims

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

Deferred acquisition costs

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

Bonuses

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

Long term business technical account (continued)

Long term business provision

The long term business provision is determined by the company's Appointed Actuary following his annual investigation of the long term business. Initially it is calculated to comply with the reporting requirements under the Interim Prudential Sourcebook for Insurers. This statutory solvency basis of valuation is then adjusted by eliminating the undistributed surplus determined by that valuation together with certain reserves advised under insurance companies regulations and general contingency reserves. It is then further reduced to reflect the impact of acquisition costs incurred which will be recovered out of future premium margins. This has been determined by means of the Zillmer adjustment applied to the net premium valuation basis. This adjusted basis is referred to as the modified statutory solvency basis. The consequent long term business provision is grossed up for the impact of reinsurance.

Allocation of surpluses and fund for future appropriations

Surpluses arising on with-profits funds and funds which include participating businesses are determined by actuarial valuation of the assets and liabilities relating to these funds. These surpluses are appropriated by the directors to participating policyholders by way of bonuses and to shareholders' interests by way of transfers to the non-technical account from the long term business technical account. The balance of these funds, the allocation of which between policyholders and shareholders has not been determined at the end of the financial year, is carried forward in the fund for future appropriations. The transfer of shareholders' profit included in the non-technical account is grossed up at the effective rate of corporation tax for the year.

Investments

Listed equity investments and irredeemable fixed interest securities are included in the balance sheet at mid-market value. Redeemable debt and other fixed income securities are carried at amortised cost. Unlisted equity investments, mortgages and loans are included at directors' valuation, which does not exceed their net realisable value. Land and buildings are stated at open market value as determined by independent qualified surveyors. The full market value has been reduced by 2% to reflect anticipated selling costs.

From this year, no depreciation is provided on properties held for own use since such depreciation is immaterial.

In accordance with SSAP 19, which requires a departure from the Companies Act 1985, no depreciation is provided in respect of freehold investment properties not occupied by the group. The directors consider that depreciation of these investment 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.

The company uses futures contracts in a limited way to protect against stock market movements. These are included at market value and shown under the category of investments to which the contracts relate.

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

Investment income and expenses

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

Unrealised gains and losses on investments are calculated as the difference between market value and original cost. The value of realised gains and losses includes an adjustment for previously recognised unrealised gains or losses on investments disposed of in the accounting period.

Investment return on investments attributable to the long term business and associated shareholders' fund is reported in the technical account for long term business. Other investment return is reported in the non-technical account. The return on the associated shareholders' fund is then transferred to the non-technical account.

Accounting Policies

Deferred taxation

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

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

Tangible assets

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

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

Value of long term insurance business

This represents the amount which the directors consider to be a prudent valuation of the group's long term insurance business. The same amount is credited to the long term insurance business reserve.

Pensions

Pension costs are charged so as to spread the long term cost over the expected service lives of employees.

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.

Goodwill

Goodwill arising on an acquisition, being the difference between the cost and the fair value of assets and liabilities acquired, is capitalised in the balance sheet and amortised through the profit and loss account over its estimated useful economic life of between 2 and 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.

1 Loss after taxation

Of the group loss after taxation, £862,000 profit *(2001:£1,569,000 profit)* has been dealt with in the accounts of the parent company.

2 Exchange rates

The principal rates of exchange used for translation are:	**2002**	*2001*
Canada	**C$2.54**	*C$2.32*
Republic of Ireland	**€ 1.53**	*€ 1.63*
Australia	**AUS$2.86**	*AUS$2.84*

3 Segmental analysis

(a) General business premiums

	2002		*2001*	
	Gross £000	**Net £000**	*Gross £000*	*Net £000*
Direct:				
Accident	**6,925**	**6,640**	*5,975*	*5,782*
Motor	**35,862**	**31,244**	*35,639*	*33,350*
Property	**164,047**	**84,645**	*148,868*	*87,605*
Liability	**48,403**	**41,131**	*37,095*	*31,507*
	255,237	**163,660**	*227,577*	*158,244*
Reinsurance accepted and London market	**58,448**	**40,562**	*54,072*	*37,632*
Total	**313,685**	**204,222**	*281,649*	*195,876*
Geographical analysis - on the basis of location of office				
United Kingdom	**249,933**	**166,004**	*222,932*	*158,671*
Australia and New Zealand	**32,292**	**20,137**	*25,018*	*17,151*
Canada	**20,767**	**10,805**	*25,457*	*13,760*
Other overseas	**10,693**	**7,276**	*8,242*	*6,294*
Total	**313,685**	**204,222**	*281,649*	*195,876*

(b) Long term business premiums

Geographical analysis - on the basis of location of office				
United Kingdom	**19,815**	**19,339**	*22,407*	*22,188*
New Zealand	**110**	**64**	*91*	*55*
Total	**19,925**	**19,403**	*22,498*	*22,243*

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

		2002	2001
3	**Segmental analysis (continued)**		
(b)	**Long term business premiums (continued)**		*Restated*
	The analysis of long term business premiums written before reinsurance is:	**£000**	*£000*
	Life insurance business		
	- Single premiums	**6,522**	*8,287*
	- Regular premiums	**6,477**	*6,985*
	Annuity business		
	- Single premiums	**785**	*960*
	Pension business		
	Non-linked contracts		
	- Single premiums	**653**	*482*
	- Regular premiums	**2,136**	*2,160*
	Linked contracts		
	- Single premiums	**477**	*456*
	- Regular premiums	**2,635**	*2,964*
	Permanent health insurance	**240**	*204*
		19,925	*22,498*
	Gross new annualised regular premiums		
	Life insurance	**169**	*344*
	Pensions	**300**	*290*
		469	*634*

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

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

(c)	**(Loss)/profit before taxation**		
	United Kingdom	**(16,232)**	*(19,193)*
	Australia and New Zealand	**943**	*(223)*
	Canada	**1,181**	*(340)*
	Other overseas	**355**	*(958)*
	Long term business	**6,724**	*1,635*
	Total	**(7,029)**	*(19,079)*

(d)	**Net assets**		
	United Kingdom	**64,334**	*83,701*
	Australia and New Zealand	**5,998**	*4,792*
	Canada	**14,493**	*14,287*
	Other overseas	**(1,573)**	*(1,714)*
	Long term business	**17,268**	*12,061*
	Total	**100,520**	*113,127*

(e) **Total assets**

Of the total assets shown on page 21, £279,266,000 (*2001:£319,050,000*) are attributable to the long term business fund.

4 Investment income

	2002 General business £000	2002 Long term business £000	2001 General business £000	2001 Long term business £000
Land and buildings	1,544	745	782	877
Other investments	16,111	14,359	15,933	15,114
Realised investment gains	4,704	17,795	3,978	3,614
	22,359	32,899	20,693	19,605

5 Expenses

		2002 General business £000	2002 Long term business £000	2001 General business £000	2001 Long term business £000
(a) Net operating expenses					
Commission paid on direct business		48,734	60	45,937	241
Other acquisition costs		19,823	1,735	20,047	1,729
Change in deferred acquisition costs		(767)	218	(991)	269
Administrative expenses		24,986	3,736	24,362	3,879
Reinsurance commissions and profit participation		(29,320)	(180)	(25,488)	(22)
		63,456	5,569	63,867	6,096
Administrative expenses include:					
Depreciation	- property	-	-	32	-
	- owned assets	3,113	98	2,585	217
	- leased assets	(76)	62	84	23
Auditors' remuneration	- parent	2	-	2	-
	- group UK, including parent	217	41	203	41
	- group overseas	72	-	107	-
	- group fees for non-audit services	121	21	158	21
Interest payments under lease purchase contracts		111	32	108	40

Depreciation on leased assets is net of surpluses and deficits arising on the surrender of leases

	2002 General business £000	2002 Long term business £000	2001 General business £000	2001 Long term business £000
(b) Other charges				
Debenture interest	780	-	780	-
Corporate business loan interest	269	-	587	-
Amortisation of goodwill	481	-	475	-
	1,530	-	1,842	-

6 Employee Information

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

	2002 General business No.	**2002** Long term business No.	*2001* *General business No.*	*2001* *Long term business No.*
United Kingdom	**847**	**89**	*840*	*86*
Australia and New Zealand	**98**	**-**	*97*	*-*
Canada	**66**	**-**	*58*	*-*
Republic of Ireland	**16**	**-**	*16*	*-*
	1,027	**89**	*1,011*	*86*
	£000	**£000**	*£000*	*£000*
Wages and salaries	**23,619**	**1,989**	*21,475*	*2,120*
Social security costs	**1,836**	**162**	*1,692*	*180*
Other pension costs	**3,337**	**265**	*2,909*	*245*
	28,792	**2,416**	*26,076*	*2,545*

7 Directors' emoluments

		2002 £	*2001* *£*
Aggregate emoluments of the directors of the company		**617,912**	*593,136*
Highest paid director	- emoluments	**228,645**	*206,709*
	- accrued pension benefit	**93,020**	*86,490*
	- accrued lump sum entitlement	**279,060**	*259,470*
Chairman's fees		**40,000**	*40,000*

The chairman was reimbursed £15,000 (*2001:£15,000*) in respect of the cost of running his office and the provision of secretarial assistance.

Two directors (*2001:2*) who were employed by Ecclesiastical Insurance Office plc, were members of the group's defined benefit pension scheme during the year.

8 Pensions

The pension cost figures used in these accounts comply with the current accounting standard SSAP 24 Accounting for pension costs. A new accounting standard, FRS 17 Retirement benefits, has been issued and applies to accounting periods ending on or after 1 January 2005, with transitional requirements applying this year.

The group's main scheme is a defined benefit scheme for UK employees. The assets of the scheme are held separately from those of the group by the trustees of Ecclesiastical Insurance Office plc Staff Retirement Benefit Fund. Pension costs for this scheme are determined, on the basis of triennial valuations, by an independent qualified actuary using the projected unit method. The most recent SSAP 24 valuation was at 31 December 2001. The assumptions which have the greatest effect on the valuation results are those related to the rate of return on investments and the rate of increase in salaries. It is assumed that there will be a positive margin of 2% between investment return and salary growth. Other than in respect of statutory pension increases, no allowance was made for pension increases as these are separately funded by the company.

The most recent actuarial valuation showed that the market value of the scheme's assets was £86,187,000 and that the actuarial value of the assets was in excess of 120% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The contribution of the group to the fund is and will remain at 16% of pensionable salary, plus additional amounts in accordance with recommendations by the Scheme Actuary. The scheme is registered with the Registrar of Pension Schemes. Pension liabilities of the Canadian branch are dealt with by payment to a Canadian Trust Fund, and pension liabilities for the Republic of Ireland branch are dealt with by payment to an Irish life office. The total funding cost for the year was £2,990,000 (*£2,720,000*). Of this £2,901,000 (*£2,632,000*) related to the UK scheme.

The Ansvar subsidiaries operate separate schemes to the main group scheme. In the Republic of Ireland, the non-contributory defined contribution scheme is now paid up. In the UK the company operates a non-contributory defined benefit scheme, the contributions to which are determined with the advice of independent qualified actuaries on the basis of triennial valuations using the attained age method. Contributions remain at 20.2% of pensionable salary. It is assumed that there will be a 1% margin between investment return and salary growth. The latest SSAP 24 valuation of the scheme was at 31 December 1999 when the market value of the assets, at £3,446,000, represented 106% of the benefits that had accrued to members. In Australia, EIG-Ansvar operate a defined contribution plan that complies with the Occupational Superannuation Standards Act. Employees contribute at a rate of 5% of basic salary, and the company at a rate of 9%.

In addition, in accordance with Financial Reporting Standard (FRS) 17, the full actuarial valuation for each defined benefit pension scheme has been reviewed and updated at 31 December 2002. The financial assumptions used, which are the average for all schemes weighted according to the value of each schemes liabilities, were as follows:

	2002	*2001*
Inflation	**2.25%**	*2.25%*
Increase in salary	**4.00%**	*4.00%*
Increase in pensions in payment	**2.25%**	*2.25%*
Discount rate for scheme liabilities	**5.50%**	*5.50%*

The above annual financial assumptions are prescribed by FRS 17 and do not necessarily reflect the assumptions used by the independent actuaries in the respective triennial valuations at 31 December 2001 and 31 December 1999.

8 Pensions (continued)

	2002 £000	
Service costs		
Current service costs	4,108	
Other finance costs		
Expected return on scheme assets	6,409	
Interest cost on scheme liabilities	(4,128)	
Net finance income	2,281	
Actuarial gains and losses		
Difference between actual and expected return on scheme assets	(14,597)	17.35%
Experience losses arising on scheme liabilities	(1,497)	1.86%
Total actuarial gains and losses and as a proportion of scheme liabilities	(16,094)	20.03%
Movement in surplus during the year		
Surplus 1 January	18,332	
Current service cost	(4,108)	
Contributions	3,352	
Other finance income	2,281	
Actuarial losses	(16,094)	
Surplus 31 December	3,763	

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

	Value at 31.12.2002 £000	Expected rate of return	*Value at 31.12.2001 Restated £000*	*Expected rate of return*
Equities	45,110	8.00%	*59,364*	*8.00%*
Bonds	23,235	5.50%	*18,898*	*5.50%*
Other	15,780	4.00%	*12,082*	*4.50%*
Total market value of assets	84,125		*90,344*	
Present value of scheme liabilities	80,362		*71,802*	
Net surplus in the schemes	3,763		*18,542*	
Deferred tax liability	1,129		*5,563*	
Net pension asset	2,634		*12,979*	
Group net assets excluding net pension asset	100,520		*113,127*	
Group net assets including net pension asset	103,154		*126,106*	
Profit and loss account excluding net pension asset	71,020		*82,627*	
Net pension asset	2,634		*12,979*	
Profit and loss account including net pension asset	73,654		*95,606*	

9 Taxation

	Long term business technical account 2002 £000	Long term business technical account *2001 £000*	Non-technical account 2002 £000	Non-technical account *2001 £000*
UK corporation tax for the current financial year	2,041	*690*	1,329	*1,113*
Overseas tax	52	*35*	690	*227*
Share of associated undertaking's tax	-	-	-	*1*
Tax attributable to shareholders' long term business profits	-	-	517	*490*
	2,093	*725*	2,536	*1,831*
Deferred tax	(4,577)	*(3,268)*	(4,388)	*(3,985)*
	(2,484)	*(2,543)*	(1,852)	*(2,154)*

UK corporation tax in the long term business technical account has been calculated at rates between 20% and 30% (*2001:20% and 30%*) in accordance with the rates applicable to long term insurance business.

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

	Non-technical account 2002 £000	Non-technical account *2001 £000*
Loss on ordinary activities before tax	(7,029)	*(19,079)*
Tax on loss on ordinary activities at standard rate	(2,109)	*(5,724)*
Factors affecting charge for the period:		
Capital allowances for the period in excess of depreciation	(576)	*(780)*
Other timing differences	(313)	*4,011*
Dividends received	(1,237)	*(1,155)*
Expenses not deductible for tax purposes	754	*433*
Tax paid at non-standard rates	429	*(139)*
Tax relief on gift aid	1,200	*1,200*
Unrealised investment losses	4,388	*3,985*
Total actual amount of current tax	2,536	*1,831*

10 Charitable grants

Charitable grants of £4,050,000 (*2001:£4,050,000*) gross and £2,835,000 (*2001:£2,835,000*) net of tax relief consist mainly of gift aid payments to the ultimate parent company, Allchurches Trust Limited.

11 Goodwill

Goodwill is amortised on a straight-line basis over its estimated useful economic life. Useful economic lives have been determined in respect of each acquisition to match the period over which the value of the underlying businesses will exceed their identifiable net assets. No useful economic lives are in excess of 20 years.

	2002 £000	*2001 £000*
Carrying value 1 January	2,994	*3,469*
Additions	6	-
Amortisation	(481)	*(475)*
Carrying value 31 December	2,519	*2,994*

12 Investments

Group	2002			2001		
	General business	**Long term business**	**Total**	*General business*	*Long term business*	*Total*
Current value	**£000**	**£000**	**£000**	*£000*	*£000*	*£000*
Freehold land and buildings						
- occupied by the group	2,122	392	2,514	*2,240*	*392*	*2,632*
- other	16,507	-	16,507	*8,767*	*11,057*	*19,824*
	18,629	392	19,021	*11,007*	*11,449*	*22,456*
Investments in group undertakings						
- preference shares	250	-	250	*250*	-	*250*
Investment in participating interest						
- ordinary shares	41	-	41	*41*	-	*41*
Other financial investments						
Equity shares and other variable yield securities and units in unit trusts:						
- listed	96,723	89,206	185,929	*166,949*	*153,040*	*319,989*
- unlisted	15,568	178	15,746	*1,342*	*1,761*	*3,103*
	112,291	89,384	201,675	*168,291*	*154,801*	*323,092*
Debt and other fixed income securities:						
- listed	163,160	71,705	234,865	*128,106*	*53,361*	*181,467*
- unlisted	216	81	297	*1,704*	*2,243*	*3,947*
Loans secured by mortgages	830	42,189	43,019	*1,362*	*48,925*	*50,287*
Other loans	5,872	312	6,184	*4,131*	*376*	*4,507*
	170,078	114,287	284,365	*135,303*	*104,905*	*240,208*
Total	282,369	203,671	486,040	*303,594*	*259,706*	*563,300*
Cost						
Freehold land and buildings	18,927	400	19,327	*10,436*	*12,099*	*22,535*
Investments in group undertakings	250	-	250	*250*	-	*250*
Investment in participating interest	-	-	-	*30*	-	*30*
Other financial investments	247,386	149,801	397,187	*236,960*	*156,254*	*393,214*
	266,563	150,201	416,764	*247,676*	*168,353*	*416,029*
Debt and other fixed income securities valued at amortised cost						
Cost	153,097	63,139	216,236	*112,360*	*48,530*	*160,890*
Cumulative amortisation	(315)	(1,392)	(1,707)	*(655)*	*(1,359)*	*(2,014)*
Current value	152,782	61,747	214,529	*111,705*	*47,171*	*158,876*
Unamortised maturity value	(4,631)	(3,521)	(8,152)	*(2,179)*	*(2,067)*	*(4,246)*
Maturity value	148,151	58,226	206,377	*109,526*	*45,104*	*154,630*
Market value	159,447	67,226	226,673	*115,265*	*51,263*	*166,528*

Owner occupied properties were valued at market value based on vacant possession at 31 December 2000. The directors have reviewed the carrying values at the year end and have not identified any material changes to circumstances or to any valuation assumptions which would materially affect the values. Other properties were valued on an open market existing use basis at 31 December 2002.

The aggregate cost of the parent company's investments in subsidiary undertakings was £22,533,000 (*2001:£22,533,000*).

12 Investments (continued)

	2002 Shares in subsidiary under -takings £000	2002 Shares in participating interest £000	2002 Total £000	*2001 Shares in subsidiary under -takings £000*	*2001 Shares in participating interest £000*	*2001 Total £000*
Cost						
At 1 January	22,533	30	22,563	*24,023*	*30*	*24,053*
Additions/(disposals)	-	-	-	*(1,490)*	*-*	*(1,490)*
At 31 December	22,533	30	22,563	*22,533*	*30*	*22,563*
Provisions						
At 1 January	96,973	11	96,984	*122,860*	*1*	*122,861*
Additions	(13,834)	-	(13,834)	*(25,521)*	*10*	*(25,511)*
Restatement	-	-	-	*(366)*	*-*	*(366)*
At 31 December	83,139	11	83,150	*96,973*	*11*	*96,984*
Net book value						
At 31 December	105,672	41	105,713	*119,506*	*41*	*119,547*
At 1 January	119,506	41	119,547	*146,883*	*31*	*146,914*

All of the investments in the table above are unlisted.

13 Assets held to cover linked liabilities

	2002 Current value £000	2002 Historical cost £000	*2001 Current value £000*	*2001 Historical cost £000*
Group	30,959	31,198	*35,033*	*28,493*

14 Debtors arising out of insurance operations

(a) Debtors arising out of direct insurance operations

	2002 General business £000	2002 Long term business £000	2002 Total £000	*2001 General business £000*	*2001 Long term business £000*	*2001 Total £000*
Group						
Policyholders	18,299	1,465	19,764	*19,700*	*731*	*20,431*
Intermediaries	32,029	-	32,029	*31,604*	-	*31,604*
	50,328	1,465	51,793	*51,304*	*731*	*52,035*

(b) Debtors and creditors arising out of reinsurance operations

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

15 Tangible assets

	£000
Group	
Cost:	
At 1 January	28,572
Additions	2,955
Exchange movements	9
Disposals	(1,826)
At 31 December	29,710
Depreciation:	
At 1 January	15,380
Provided in the year	4,402
Exchange movements	8
Disposals	(1,438)
At 31 December	18,352
Net book value at 31 December	
General business	10,199
Long term business	1,159
	11,358
Net book value at 1 January	
General business	*12,020*
Long term business	*1,172*
	13,192

Tangible assets comprise computer equipment, motor vehicles and office equipment.

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

Notes to the Accounts

16 Share capital

	2002 Group £000	2002 Parent £000	*2001 Group £000*	*2001 Parent £000*
Authorised, issued, allotted and fully paid				
Ordinary share capital:				
20,000,000 shares of £1 each	20,000	20,000	*20,000*	*20,000*

17 Reserves

	Revaluation and other reserves £000	Long term insurance business reserve £000	General reserve £000	Profit and loss account £000	Total £000
Group					
As previously reported	-	5,000	5,500	82,993	93,493
Prior year adjustment	-	-	-	(366)	(366)
Balance 1 January	-	5,000	5,500	82,627	93,127
Revaluation of long term business	-	(1,000)	-	-	(1,000)
Currency translation differences	-	-	-	(1,137)	(1,137)
Transfer from profit and loss account	-	-	-	(10,470)	(10,470)
Balance 31 December	-	4,000	5,500	71,020	80,520
Parent					
As previously reported	80,501	-	-	12,992	93,493
Prior year adjustment	(366)	-	-	-	(366)
Balance 1 January	80,135	-	-	12,992	93,127
Revaluation of group undertakings	(13,469)	-	-	-	(13,469)
Transfer from profit and loss account	-	-	-	862	862
Balance 31 December	66,666	-	-	13,854	80,520

18 Reconciliation of movements in group shareholders' funds

	2002 £000	*2001 £000*
Loss for the financial year	(7,635)	*(19,255)*
Revaluation of long term business	(1,000)	*(1,000)*
Currency translation differences	(1,137)	*(850)*
	(9,772)	*(21,105)*
Charitable grants net of tax relief	(2,835)	*(2,835)*
Net movement in shareholders' funds	(12,607)	*(23,940)*
Opening shareholders' funds	113,127	*137,433*
Prior year adjustment	-	*(366)*
Closing shareholders' funds	100,520	*113,127*

19 Minority interests

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

	Profit and Loss Account		Balance Sheet	
	2002	*2001*	**2002**	*2001*
	£000	*£000*	**£000**	*£000*
Non-equity interests				
Ecclesiastical Insurance Office plc				
2.8% First Cumulative Preference shares of £1 each	**2**	*2*	**77**	*76*
10% Redeemable Second Cumulative Preference shares of £1 each	**300**	*300*	**3,000**	*3,000*
8.625% Non-Cumulative Irredeemable Preference shares of £1 each	**2,156**	*2,028*	**25,000**	*25,000*
	2,458	*2,330*	**28,077**	*28,076*

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

Year of Redemption	Premium
2003 to 2007	2½ per cent
2008 to 2012	Nil

Any of these preference shares not previously redeemed [illegible]

[illegible] term business provision

The long term business provision has been calculated by the Appointed Actuary of the company using the following underlying principal assumptions.

(a) Rates of interest

		2002	2001
		%	*%*
Assurances:			
Life		**2.5-3.0**	*2.5*
Pensions		**2.5-3.0**	*2.5*
Annuities:			
With profit	- deferred	**1.5**	*1.5-2.5*
Without profit	- deferred	**3.0-4.0**	*1.5-2.5*
	- vested	**4.0-4.5**	*4.0-4.5*

(b) Mortality tables

Assurances:		**AM92**	*AM92*
Annuities:			
Deferred annuities	- pensions	**PMA92/PFA92(C=2010)**	*PMA92/PFA92(C=2010)*
	- school fees	**no mortality**	*no mortality*
Vested annuities	- pensions	**PMA92/PFA92(C=2010)**	*PMA92/PFA92(C=2010)*
	- other	**IMA92/IFA92(C=2010)**	*IMA92/IFA92(C=2010)*

The mortality tables used have various deductions from age depending upon the type of business being valued. Further reserves have been set up to reflect anticipated improvements in the mortality experience of pensioners.

21 Claims outstanding

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

Chain Ladder methods extrapolate paid and incurred claim amounts and the number of claims, based on the development of previous accident or underwriting 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 are used. This method enables judgement to be made of the expected impact of loss ratios of both internal and external developments such as portfolio mix movements, changes in public attitudes to claiming, changes in policy cover and changes in the rate of inflation in settlement costs. For smaller portfolios the materiality of the business and data available may also shape the methods used in reviewing reserve adequacy.

The outcome of the ultimate settlement cost of claims is uncertain and an addition is made to the most likely outcome to reflect this and to ensure prudent provisions are made. The addition for uncertainty 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 Mack method cannot be applied, provisions have been calculated at a level intended to be equally prudent. Where the standard methods cannot allow for changing circumstances, such as latent claims, appropriate further provisions are added. This degree of prudence generally results in a favourable release of provisions in the current financial year, arising from the settlement of claims relating to previous financial years. The favourable release in 2002 amounted to £17.9 million (*2001:£7.6 million*).

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

22 Equalisation provision

The equalisation provision, established in accordance with the Interim Prudential Sourcebook for Insurers, is required by Schedule 9A to the Companies Act 1985 to be included within technical provisions, notwithstanding that it does not represent a liability at the balance sheet date. It is in addition to the provisions required to meet the anticipated ultimate cost of settling outstanding claims at the balance sheet date. The provision has reduced shareholders' funds by £9,938,000 (*2001:£6,156,000*) and decreased both the balance sheet on the general business technical account and the profit before taxation for the year by £3,782,000 (*2001:£2,421,000*).

23 Provisions for other risks and charges

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

	2002	*2001*
		Restated
	£000	*£000*
As previously reported	18,969	*13,920*
Prior year adjustment	-	*12,302*
Balance 1 January	18,969	*26,222*
Decrease in provision	(8,965)	*(7,253)*
Balance at 31 December	10,004	*18,969*
The potential liability for deferred tax provided in the financial statements is as follows:		
Unrealised investment gains	15,279	*29,762*
Capital allowances in excess of depreciation	(1,414)	*(407)*
Other timing differences	(1,715)	*(5,980)*
Undiscounted provision for deferred tax	12,150	*23,375*
Discount	2,146	*4,406*
Discounted provision for deferred tax	10,004	*18,969*

23 Provisions for other risks and charges (continued)

In accordance with FRS19 the present value of deferred tax has been recognised in respect of all timing differences which have originated but not reversed by the balance sheet date. A deferred tax asset of £1,677,000 (*2001:£1,394,000*) in respect of tax losses in the life fund has not been recognised in these accounts.

Prior to 1 January 2002 the group's accounting policy was to provide for deferred tax in respect of unrealised gains on investments held by the general insurance business fund to the extent that they are likely to be realised in the foreseeable future. No provision was previously made on unrealised gains on investments held by the life assurance funds. Consequently, the main impact of the change is on the life fund.

The impact of the change on reported shareholder profits of the current and prior year is not material and the profit and loss account has therefore not been restated. The impact of the change on the technical account for long term business of the prior year is a reduction in the charge for taxation and a reduction in the transfer from the fund for future appropriations of £3,268,000.

The impact of the change on the consolidated balance sheet is to decrease capital and reserves at 31 December 2000 and 31 December 2001 by £366,000 and the balance sheet has been restated accordingly.

24 Other creditors including taxation and social security

	2002 £000	*2001 £000*
Amounts falling due within one year:		
Other creditors	9,097	*7,164*
Taxation	1,633	*1,131*
	10,730	*8,295*
Amounts falling due after more than one year:		
Debenture stock	6,000	*6,000*
Corporate business loan	5,000	*10,000*
Other creditors	1,350	*1,195*
	12,350	*17,195*
	23,080	*25,490*

	2002 £000	*2001 £000*
Included in other creditors are obligations under lease purchase contracts due:		
In 1 year or less	599	*559*
Between 2 and 5 years	1,338	*1,182*
Over 5 years	12	*13*
	1,949	*1,754*

The £6,000,000 13% Debenture Stock 2018 is secured on the assets of the company. 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.

The corporate business loan is repayable on 30 December 2004.

The group is required under the Financial Services Compensation Scheme to contribute towards any levies raised on UK general insurance business. The amount of the levy may vary from nil to a maximum levy of 0.8% of UK written premium net of commission.

25 Notes to the cash flow statement

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

	2002 £000	*2001* *£000*
Loss on ordinary activities before tax	(7,029)	*(19,079)*
Depreciation charges	3,037	*2,701*
Amortisation of fixed interest securities	288	*300*
Amortisation of goodwill	475	*475*
Unrealised losses on investments	32,455	*24,420*
Increase in net general insurance technical provisions	23,991	*29,041*
Profit relating to long term business	(1,724)	*(1,635)*
Cash (paid to)/received from long term business	(5,000)	*1,723*
Share of profits of associates	-	*(11)*
Loan interest payable	1,320	*1,358*
Other interest payable	111	*150*
Realised investment gains	(4,922)	*(4,530)*
Loss on sales of tangible fixed assets	613	*50*
Movement in other debtors and creditors	4,960	*(1,063)*
Exchange and other non-cash movements	1,214	*1,216*
Net cash inflow from operating activities	49,789	*35,116*

(b) Movements in cash, portfolio investments and financing

	At 1 January 2002 £000	Cash flow £000	Changes in long term business £000	Exchange and other non-cash movements £000	At 31 December 2002 £000
Cash at bank and in hand	81,033	20,316	31,387	(576)	132,160
Shares and other variable yield securities	323,133	(29,128)	(65,418)	(26,871)	201,716
Fixed income securities	240,458	37,114	9,382	(2,339)	284,615
Land and buildings	22,456	8,017	(11,057)	(395)	19,021
Assets held to cover linked liabilities	35,033	-	(4,074)	-	30,959
	702,113	36,319	(39,780)	(30,181)	668,471
Borrowing due after 1 year	(16,000)	5,000	-	-	(11,000)
	686,113	41,319	(39,780)	(30,181)	657,471

26 Operating leases

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

	2002		*2001*	
	Premises £000	Equipment £000	*Premises* *£000*	*Equipment* *£000*
Commitments				
Expiring:				
Within 1 year	382	147	*313*	*358*
Between 2 and 5 years	1,598	252	*1,075*	*482*
Over 5 years	907	-	*1,469*	-
Total	2,887	399	*2,857*	*840*
Payments included in operating expenses	2,510	847	*2,387*	*856*

27 Capital Commitments

At 31 December 2002 there were no outstanding contracts for capital expenditure *(2001:nil)*.

28 Parent, subsidiary and associated undertakings

Parent company

The company's ultimate parent and controlling company is Allchurches Trust Limited incorporated in Great Britain. Copies of the accounts for the company and the parent company are available from the registered office as shown on page 10. The parent companies for the smallest and the largest groups for which group accounts are drawn up are Ecclesiastical Insurance Office plc and Allchurches Trust Limited. All the subsidiaries listed are included within the consolidated financial statements. Voting rights are in line with the holdings of ordinary shares.

Subsidiary undertakings	Share capital	Holding of shares by: Parent	Subsidiary
Incorporated and operating in Great Britain, engaged in investment, insurance and financial services or other insurance related business:			
Ecclesiastical Insurance Office plc	Ordinary shares	100%	
	2.8% First Cumulative Preference shares	69.3%	
	9.5% Redeemable Third Non-Cumulative Preference shares	100%	
Ecclesiastical Group Asset Management Limited	Ordinary shares	100%	
The Churches Purchasing Scheme Limited	Ordinary shares	100%	
Ecclesiastical Underwriting Management Limited	Ordinary shares	100%	
Hinton and Wild (Home Plans) Limited	Ordinary shares	100%	
Allchurches Investment Management Services Limited	Ordinary shares		100%
Allchurches Life Assurance Limited	Ordinary shares		100%
Ansvar Insurance Company Limited	Ordinary shares		100%
Ansvar Pensions Limited	Ordinary shares		100%
Blaisdon Properties Limited	Ordinary shares		100%
Eccint Limited	Ordinary shares		100%
Ecumenical Insurance Company Limited	Ordinary shares		100%
Incorporated and operating in Australia, engaged in insurance business:			
EIG - Ansvar Limited	Ordinary shares		100%
Incorporated and operating in New Zealand, engaged in insurance business:			
EIG - Ansvar Insurance (New Zealand) Limited	Ordinary shares		100%
EIG - Ansvar Life Limited	Ordinary shares		100%

28 Parent, subsidiary and associated undertakings (continued)

In addition, there are seven other wholly owned subsidiary undertakings and a 30% investment in an associated undertaking whose assets and contribution to group income are not significant. Ecclesiastical Insurance Office plc also holds 250,000 6% Non-Cumulative Redeemable Preference shares in Allchurches Mortgage Company Limited which is a wholly owned subsidiary of Allchurches Trust Limited.

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

During the year related party transactions consisting of £670,000 (*2001:£583,000*) school fee annuities were accounted for by the group to Beaufort House Trust Limited, a company under common control. Of this £161,000 (*2001:£195,000*) was prepaid at the balance sheet date. This has been accounted for in the long term business technical account.

Financial Summary

	2002	2001* Restated	2000* Restated	1999*	1998*
	£000	£000	£000	£000	£000
Premium income					
Gross premiums written					
General business	313,685	281,649	251,625	235,647	204,051
Long term business	19,925	22,498	20,089	19,967	19,256
Total	333,610	304,147	271,714	255,614	223,307
Net premiums written					
General business	204,222	195,876	178,394	166,929	141,074
Long term business	19,403	22,243	19,748	19,666	18,921
Total	223,625	218,119	198,142	186,595	159,995
Summary of results					
(Loss)/profit on ordinary activities before tax	(7,029)	(19,079)	(3,347)	43,957	661
(Loss)/profit on ordinary activities after tax	(5,177)	(16,925)	(3,335)	31,256	(3,276)
Minority interests	2,458	2,330	2,330	12,791	(218)
	(7,635)	(19,255)	(5,665)	18,465	(3,058)
Charitable grants net of tax relief	2,835	2,835	2,835	2,825	2,795
Retained (loss)/profit for the financial year	(10,470)	(22,090)	(8,500)	15,640	(5,853)
Capital and reserves					
Share capital	20,000	20,000	20,000	20,000	20,000
Long term insurance business reserve	4,000	5,000	6,000	6,000	6,000
General reserve	5,500	5,500	5,500	5,500	5,500
Retained profits	71,020	82,627	105,567	114,447	96,572
	100,520	113,127	137,067	145,947	128,072

* Capital and reserves for 2001 and 2000 have been restated to comply with the change in accounting policy resulting from the adoption of FRS 17. The figures for 1999 and 1998 have not been restated as the effect of the change is not considered to be material.

Notice of Meeting

NOTICE is hereby given that the Annual General Meeting of Ecclesiastical Insurance Group plc will be held at Beaufort House, Brunswick Road, Gloucester GL1 1JZ on Thursday 26 June 2003 at 12.30 p.m. to transact the following ordinary business of the company:

1. To receive and adopt the directors' report and statement of accounts for the year ended 31 December 2002 and the report of the auditors thereon.

2. To re-elect The Very Revd. N. G. Coulton as a director.*

3. To re-elect Mr G. V. Doswell as a director. *

4. To re-elect Mr W. H Yates as a director. *

5. To elect The Venerable N. Baines as a director *.

6. To elect Mr D. R. Losse as a director *.

7. To consider the declaration of a dividend.

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

By order of the board

Mrs R. J. Hall
Secretary

Gloucester
23 April 2003

* *Brief biographies of the directors seeking election or re-election are shown on page 11.*

A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not also be a member.

This notice is sent for information to the holders of the 13% Debenture Stock 2018.