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ECCLESIASTICAL



ECCLESIASTICAL INSURANCE GROUP plc

REPORT AND ACCOUNTS 31 DECEMBER 2001

Report and Accounts 31 December 2001

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Chairman's Statement

The terrorist attacks on the World Trade Center in New York and on Washington on September 11th have left an indelible mark on many lives and a dark stain on a page of history. The shock waves set off by the outrage continue to reverberate round the world and in financial markets as different political systems, cultures and religions grapple with the uncomfortable implications. The insurance industry must meet the largest set of claims by far ever recorded and it is to its credit that despite some casualties it is able to do so. Not surprisingly, stock markets already suffering from the effects of slowing economic growth and recessionary fears, not to mention the bursting of the dot.com bubble, initially fell further and remain volatile and fragile. Reinsurance rates to the primary insurers such as the Ecclesiastical are now being increased sharply as the reinsurers seek to repair over time the balance sheet damage they have suffered. It is these two factors, weak stockmarkets and rising reinsurance rates, that have had and will have the most visible impact on our business results rather than any significant direct exposure to New York, although we are not wholly immune. Each and every one of us will be affected directly or indirectly by this catastrophe.

The Consolidated Profit and Loss Accounts and Balance Sheets on pages 17 to 22 set out for shareholders the main components of the Company's results for 2001. For ease of reference and explanation I draw attention to the following figures with comparable figures for 2000 and 1999.

	2001 £million	2000 £million	1999 £million
Gross Premium Income (General and Long Term)	304.1	271.7	255.6
Balance on General Business Technical Account	(15.4)	(23.3)	(19.5)
Investment Income	17.1	17.3	18.7
Realised Investment Gains	3.6	12.7	27.5 *
Unrealised (Losses)/Gains on Investments	<u>(23.7)</u>	<u>(14.7)</u>	<u>15.9</u>
Net Return on Investment	<u>(3.0)</u>	<u>15.3</u>	<u>62.1</u>
Balance on Long Term Business Technical Account	1.1	2.4	1.5
(Loss)/Profit Attributable to Shareholders	(19.3)	(5.7)	18.4
Grant to Allchurches Trust (net of tax) and dividends	<u>(2.8)</u>	<u>(2.8)</u>	<u>(2.8)</u>
Retained (Loss)/Profit	<u>(22.1)</u>	<u>(8.5)</u>	<u>15.6</u>
Shareholders' Funds	113.5	137.4	145.9

* Note: 1999 realised investment gains include £21.8million for St Andrew Trust

I am pleased to note the further satisfactory growth in premium income of 12%, supported by a strong performance in long term business. Growth achieved in general insurance is more as a result of increased rates across the business rather than risk exposure – a trend budgeted to continue in 2002 and beyond. I am also pleased to report some improvement in the underwriting result – albeit still inadequate – reflecting the remedial measures already in place and planned to continue in order to address the evident imbalance. Improved results were achieved in the core UK Division while there were deteriorations in both Australia and Canada. It is a requirement under the ABI Statement of Recommended Practice (SORP) to include in the Profit and Loss Account volatile swings in investment values and it is this factor which again this year adversely affects the final result. In a poor year for equity markets we have actually achieved relatively good investment results compared with stock market indices and have benefited of course from our substantial bond and cash holdings in a low inflation and uncertain climate. I make no apology for questioning once again the wisdom of this form of presentation. However, the overall result cannot and should not be ignored; shareholders' funds have fallen from £137 million to £113 million and a withdrawal of £4 million from distributable reserves has been required to meet dividends to shareholders and to maintain the grant to Allchurches Trust.

Having reviewed the results for 2001 and the first welcome signs of the essential improvement in underwriting they show, I turn with quiet confidence to consider the outlook for the insurance industry in general and for the Ecclesiastical in particular. We have now entered an era of heightened awareness of risk in the world around us. For the industry to play its part in

Chairman's Statement

protecting against risk, insurers must be secure and adequately financed to meet the developing needs of policyholders. That financial commitment must, in turn, be properly rewarded. Since September 11th there has been growing recognition of this need. In the eyes of policyholders, rising prices are understandably unpalatable. In the UK, however, insurance premiums have had to absorb the upward pressure on claims costs arising from a whole series of social, political and environmental developments and expectations. Legislative reform has driven up the frequency and cost of personal injury compensation and motor policyholders now have to bear a larger share of NHS charges for road accident victims. Sometimes these changes have had a retrospective impact. The trend in the occurrence of both catastrophe losses and large individual claims for property damage is rising and the industry is also bearing the burden of higher levies to compensate those affected by uninsured motorists and failed insurers. The capacity of companies to carry these costs has been disguised for a time by the apparent availability in the stock market of a level of investment return which was and is quite unsustainable in a low inflationary environment. The combination of low interest rates and weak equity markets should force the industry, not before time, to return to basics and underwrite for profit. I welcome this change in emphasis.

I have previously reported to shareholders on the steps we have been taking to refocus the business, withdrawing from non-core areas, repricing unprofitable lines or simply declining to underwrite. This process continues. The quiet confidence I have expressed therefore, although inevitably subject to the wholly unforeseen is, I believe, based on rational expectations against the background of a hardening insurance market. With a sound balance sheet and a strong solvency ratio the Ecclesiastical is in a position to participate in recovery as it occurs and at the same time offer policyholders the security they require.

Before directing attention to the Managing Director's detailed review of operations on pages 5 to 8, I would like to comment briefly on several areas of interest.

Our stated aim is to run "...an independent and successful financial services organisation with the highest standards of integrity to produce profit and service for the benefit of the Church of England and its partner churches...". Despite the problems encountered in 2001 the Board has felt justified in maintaining the grant of £4 million to Allchurches Trust which in turn should finance the donations to the Church at large in 2002.

Our focus on being the leading insurer of churches has been sharpened further in 2001 across the breadth of our businesses at home and overseas. The valued relationships we enjoy with the Baptist and Methodist insurance companies have continued to grow positively. The objective is to deliver services that meet the specialist needs of all those connected with the church community in a way that adds value to the principal insurance transaction. From the feedback we receive, it is encouraging to hear that our efforts have met with some success.

In our Financial Services operations we have had an encouraging year with relatively good investment performance in our with-profits products and Open Ended Investment funds (OEICs), good pay-outs to with-profit policyholders and much better new business figures. We have satisfactorily completed regulatory reviews well ahead of the required timescales. Providing specialist financial advice is an integral part of the service we offer to the Clergy and much energy has been spent on shaping the business to meet the challenges in this fast-changing market.

Planning to comply with the rapidly developing regulatory environment has been high on our agenda. The changes to which we must adapt are on a scale that commands a significant commitment of management time and we have, during the year, strengthened our resources in this area. There is a particular focus on the insurance industry in the process of regulatory reform which we are seeing both in the UK and in Australia. This is, perhaps, an inevitable consequence of the company failures that have occurred in the insurance markets in both countries. It is clearly in the communal interest to have a well-regulated insurance industry for, otherwise, the cost of failure is ultimately borne in part by the policyholders of secure insurers through statutory compensation schemes where they exist. We have provided in our accounts to meet the cost of a levy by the Financial Services Compensation Scheme in 2002. Recent events demonstrate all too clearly the need for choice of insurer to be informed by security and value rather than price alone. In the UK, the programme of regulatory reform that we face will extend to 2004 and, possibly, beyond. If the outcome leads to a better disciplined market, the significant investment of time and effort will have been worthwhile. The development of a stable marketplace which provides the consumer with insurance and savings products at prices that fairly reward the capital securing delivery of the promise will be to the benefit of all. In the quest for higher standards, which we wholly support, we hope that the FSA will strike a sensible balance in framing the new rules to achieve their statutory objectives.

I have already referred to the substantial increase in reinsurance premiums primary insurers have all been required to pay. As much as on the quantum involved we have concentrated on the financial strength of the companies through whom we reinsure in placing our programme for 2002. Those responsible should be commended for their skill in completing this vital task substantially on time. The outstanding issue relates to the extent and cost of terrorist cover available – the subject of intense debate between the industry and government.

Chairman's Statement

The skills and wide range of experience required of Directors and General Management are critical to the continuing success of the Ecclesiastical and in this respect we are indeed well served. The responsibilities involved in running a growing financial services organisation may at times appear daunting, but the combination of integrity, sound judgement, application and mutual respect has helped forge an outstanding team.

At the end of the year we said farewell to Bernard Day who has served the company well for four years as a non-executive director following his retirement as Managing Director in 1997. We also will perforce lose the valued service of Philip Mawer following the AGM on his appointment as the Parliamentary Commissioner for Standards – we shall miss the quality of his contribution to our discussions. I thank them both for the commitment they have shown to the Ecclesiastical. In their place we will be welcoming to the Board two new non-executive directors, subject to regulatory approval. The Venerable Nicholas Baines, Archdeacon of Lambeth, will strengthen the clerical representation on the Board and in addition to his wide parochial experience will bring an experienced analytical mind as well as communication skills to our counsels. Dieter Losse, until recently the respected Deputy Chairman of Benfield Greig, will contribute a lifetime's experience of the reinsurance market together with an acute mind and strengthen the Board's oversight in this key area. We are fortunate to have secured their services.

Last but by no means least, I pay a warm tribute for their service and commitment to all those who work for the Ecclesiastical at home and overseas – to my colleagues on the Board, to Graham Doswell and the management team, and to every member of staff.

Mark Cornwall-Jones
Chairman

Review of Group Operations

The performance of our general insurance business showed a significant and much needed improvement in 2001. The wide-ranging nature of the strategy we have been following for some time is beginning to have the positive effect on results that we were expecting to see. Though this improvement is welcome, there is still a little way to go yet before we achieve the return required from underwriting operations but the necessary measures are in place.

In the second half of the year, insurance markets worldwide and confidence in the global economic outlook were destabilised by the tragedy of the terrorist attacks that occurred on 11th September. We were fortunate that Ecclesiastical's net exposure to the loss from the World Trade Center was limited at an estimated cost of £3.0 million and we have provided for this amount in our results. Prior to equalisation charges of £2.4 million, the loss from general insurance underwriting is £13.0 million compared to £22.9 million in 2000. We have succeeded in reversing the deteriorating trend that began in 1997 when we started to feel the impact of the downturn in the underwriting cycle. The combined ratio on an earned basis was 107%.

Amongst the after-effects of the World Trade Center disaster has been a general concern about the security of the reinsurance market which so far appears unfounded. Whilst we have always adopted a rigorous approach to the composition of our reinsurer panel substantiated by an excellent recovery record, we have considered it prudent to raise further provisions against potential bad debts. In addition we have provided an extra £0.8 million against the cost of future levies from the Financial Services Compensation Scheme arising from UK insurance company failures earlier in the year. The combined effect of these charges has added more than 1% to the general insurance net expense ratio.

At £4.0 million, gains realised on the sale of investments have been much lower than in the previous year. The difference of £8.7 million accounts almost entirely for the reduction in reported investment income to £20.7 million. The repercussions of 11th September on economic prospects have been felt in stock markets worldwide as increased uncertainty led to fears of recession. The widespread fall in stock market indices, in some cases for the second year in succession, has diminished the value of our investments by £23.7 million leading to a loss before tax of £19.1 million.

We have been able, nonetheless, to maintain the grant of £4 million paid to Allchurches Trust.

The overall outcome of the year's activity is a reduction in the value of shareholders' funds to £113 million, equivalent to a solvency margin of 72%. At this still strong level, policyholders can have justifiable confidence in the security we offer. These resources will also enable us to develop our business profitably in the much more favourable conditions that undoubtedly now exist in our chosen markets.

In financial services, we have enjoyed a successful year with strong sales growth relative to overall industry performance. There has also been a further positive contribution to the profit and loss account from our proprietary life subsidiary, Allchurches Life.

In general insurance, gross premium income from continuing operations increased by 13%. Long term premiums written grew at a much higher rate than in recent years and were up by 12%.

General Business – United Kingdom

Efforts to improve profitability continued throughout the year and were rewarded by a much stronger result. The combined ratio improved to 103% and the underwriting loss was reduced to £3.1 million. Some respite from the extraordinary weather losses that so adversely affected performance in 2000 coupled with a renewed sense of realism in the market about the premium rating levels required contributed to the recovery. Gross premiums written by Ecclesiastical's UK retail division grew by 7.5% to £158 million.

Fires at both Coventry and Peterborough Cathedrals emphasised the real exposure to loss that is ever present in our country's churches and the value of the risk management expertise Ecclesiastical makes available to help those with responsibility for the security of church buildings. Our continued sponsorship of the National Churchwatch Scheme is also aimed at reducing the all too high frequency of losses caused by theft, arson and malicious damage. We are very pleased that the overall service provided to our customers and the strong sense of partnership we share has led to an increase in the number of Anglican churches we insure.

Whilst there was a significant improvement in the results of motor business, the problems affecting the liability account remain despite the frequent application of price increases. We see little alternative to this approach in responding to the rising cost and frequency of claims if the availability of cover is to be maintained.

Following on from our becoming a member of the General Insurance Standards Council, procedures were reviewed to ensure compliance with the Council's rules as part of our commitment to continuous improvement in the service we provide. Towards the end of the year, it was decided that conduct of business regulation for general insurance would pass to the FSA. The work we have already done should ease the transition to the new rules which are expected to apply in 2004.

Review of Group Operations

Implementation of the new computer software system gathered pace during 2001. This major project remains on target and we are now planning to capitalise on the opportunities for improved service and efficiency that the system offers.

In the prevailing environment of major regulatory change and rising customer expectations, we firmly believe in the need to invest in the development of the professional and technical skills of all our staff. We plan to build on the very positive feedback we are receiving about customer satisfaction through commitment to a new training initiative aimed at raising professionalism and quality of service.

General Insurance – International

Results from overseas branches and agencies, reinsurance accepted and from London market operations improved overall although the progress made was held back by deteriorations in Canada and from overseas agencies. The underwriting loss was £8.1 million before equalisation charges. Gross premiums written grew by 18% to £88 million.

In Canada, a significant rise in the frequency and cost of large claims adversely affected results and the underwriting loss of £2.2 million we are reporting is the largest for many years. Corrective action has been taken through an accelerating programme of premium rate increases and other underwriting measures. Rate increases have contributed strongly to the 11% growth in gross premiums written.

In Ireland, our branch had a successful year producing a positive underwriting result and strong premium growth again supported by rate increases.

Results from London market operations have improved substantially following the action taken at the end of 2000 to provide for the cost of future expected claims from open underwriting years and the continued withdrawal from unprofitable areas. The underwriting loss of £2.2 million overall is after the estimated £3.0 million net cost of our exposure to the World Trade Center which has arisen from facultative and treaty reinsurance business accepted in the property class. We expect that the sharply rising premium rates which have contributed to the growth in these short tail accounts and the further tightening of underwriting acceptance criteria will lead to further improvements in performance.

The contribution from our relationship with the Baptist and Methodist insurance companies forms part of our inwards reinsurance result. Whilst there was a loss overall, the out-turn was adversely affected by a number of large losses caused by arson attacks on church buildings. The extension of our risk management expertise to these church communities is amongst the strategic measures designed to improve performance of all elements of the inwards reinsurance portfolio.

Elsewhere in our denominational church accounts, we are pleased with the progress made by the URC Insurance Company in expanding its book of church business since its acquisition last year and also with the transfer to us of the entire portfolio of the Welsh Baptist Assurance Company in November.

Results from overseas agencies were less satisfactory than in previous years due principally to deteriorating results in motor business in Cyprus and Malta written through GAP Vassilopoulos Group and SMS Insurance Agency respectively. Other results in Cyprus produced by John Makriyiannis & Son Ltd. were commendable and the underlying performance from W A Hienfeld in Holland was encouraging. We continue to work closely with all our agency partners. The run-off of our discontinued business through our former agent in Greece has produced a loss.

General Insurance – Subsidiary Companies

Ansvar Insurance Company in the UK continued to make good progress and recorded another overall profit in its third year since becoming part of the Ecclesiastical Group. Measures were taken at the start of 2001 to strengthen its balance sheet leading to an improvement in its financial security rating by Standard & Poor's and renewed affirmation of its "very good" secure rating following the annual review by A M Best. The underwriting loss reduced and gross premiums written increased by 24%.

In Australia, there was an interruption in the positive trend of growth and profitability achieved by our EIG-Ansvar subsidiary over the last few years. The combination of heavy storm activity at the start of the year and bush fires at the end contributed to a significant deterioration in the underwriting result and to a small pre-tax loss overall. Further strengthening of reserves in the liability class was also necessary which is leading to both sharp increases in premium rates and constraints on the availability of cover. These pressures have been intensified by the collapse in March of Australia's second largest insurer and a market leader in liability business. Increased premiums from existing business have contributed to the strong growth achieved in gross premiums written. Results achieved in New Zealand were again satisfactory.

Reserving Standards

There has been a net addition of £2.4 million to the statutory provision for claims equalisation compared to £0.4 million in 2000.

Review of Group Operations

Market events in 2001 demonstrated the need for insurers to maintain adequate levels of reserves. The rigorous approach already taken in Ecclesiastical was reviewed during the year with the benefit of external advice in order to maintain best practice. The consequent changes have reinforced the strong standards already applied and the process has been extended consistently across the principal areas of the Group's operations.

In the London Market, open year funds have been strengthened where necessary to provide for the estimated loss from the World Trade Center and an adverse underwriting outcome expected in the transit account from the 2001 year. Technical provisions relating to UK motor and liability claims continue to include margins against the impact of developing law reform.

Long Term Business

The year has seen achievements on many fronts and a strong sales performance. New business growth on the industry standard measure was 16.6% compared to an increase of 13.7% for the market as a whole. The overall pattern of sales was heavily weighted towards single premiums with good sales of With Profit Bonds in the Ecclesiastical Life fund.

New sales from the range of OEIC funds also grew strongly by 30% with an increase in regular contribution ISA's being achieved in step with emerging best practice for retirement planning.

The changing nature of the product mix has resulted in a lower level of sales activity in our proprietary life subsidiary, Allchurches Life, and a reduction in its premium income. In recognition of these trends, the Directors' valuation of the Company included in the balance sheet has been reduced to £5 million (from £6 million) representing the estimated present value of profits still to emerge.

Whilst we have been able to maintain reversionary bonus rates on participating with profits policies following the actuarial valuation of the Ecclesiastical Life fund, the continued decline in available investment returns has required us to make a further reduction in the rates of capital bonus for policies maturing from July 2002. This general reduction will affect all policy terms to varying degrees and follows a previous across the board cut of 10% effective from January last.

Whilst this action is the inevitable consequence of prevailing conditions in investment markets, policyholders are receiving compound returns between 5% and 8% per annum ahead of the average rate of inflation depending on policy period. In addition, the ability to smooth returns continues to shield policyholders from the full impact of the fall in investment values that has affected the Fund in the period of stock market volatility that has been experienced. The investment performance of the with profits fund has nevertheless been strong and supports bonus rates that we believe will compare favourably with competitors.

High profile events in the financial services sector coupled with very challenging economic and investment conditions have created both regulatory and financial pressures on insurance companies. The results of actuarial valuation of all of the Group's funds demonstrate that they are in a strong condition with reserves in excess of the amounts required to meet regulatory requirements for solvency and other prudential margins.

Further good progress has been made towards the implementation of major projects to enable our Financial Services Division to compete effectively in the rapidly changing marketplace for financial products. Advantage was taken of the limited relaxation of the polarisation rules to reach an agreement with Norwich Union for the adoption of their stakeholder pension plan. This addition to our product range enhances our ability to meet the needs of our clients and complements our strategy to provide a professional, high quality and specialist advisory service especially to members of the clergy.

Finance and Investment

The slowdown in the global economy exacerbated by the tragic events of 11th September manifested itself in falling indices across almost all of the world's stock markets. Interest rates also fell in response to the actions of central banks to avoid recession. The inescapable consequence of increased economic uncertainty was a reduction in the value of investments which has fed through to unrealised losses of £23.7 million from the general insurance fund being taken through the non-technical account. A conscious underweight position in the TMT sector helped to insulate our portfolio from the eventual collapse of investments in information technology and telecommunications leading to an out-performance against relevant market comparators.

Gains realised from the sale of investments were sharply down on the previous year. The announcement of the anticipated change to a "mark to market" basis of taxation for unrealised equity gains, in line with the accounting treatment required by the ABI SORP, and the availability of a concession applicable to existing investments were among factors influencing investment strategy. Asset allocation policy has been the subject of continued attention and the level of liquidity in the general insurance fund was increased significantly by year end.

Review of Group Operations

Supported by improved cash flow, other investment income held up well in the low interest rate environment but there was a small decrease compared to the previous year.

It was another successful year for our retail OEIC funds. Over the one year period to 31st December, the ethical Allchurches Amity Fund, the Higher Income Fund and the UK Equity Fund all maintained their top quartile rankings in their respective Micropal categories and were joined by the European Fund in this position. The International fund remained in the second quartile. Total cash flow into the OEIC funds was healthy and increased efforts were made to publicise them to our target audiences through our Financial Services field force.

Conclusion

Good progress has been made in many areas during a year of extreme difficulty and uncertainty. Trading conditions around the world have improved significantly and favour a sustainable return to the required level of underwriting profitability.

The road ahead will not, however, be without difficulty. Although our reinsurance programme was successfully placed in secure markets for 2002, albeit on increased terms, the future scope and availability of reinsurance protection against acts of terrorism in the UK remains uncertain. In addition further outbreaks of flooding early this year emphasise the very real need for government action to improve flood defences and planning controls if flood cover is still to be readily available after expiry at the end of 2002 of the industry's two year commitment to maintain insurance protection for existing personal lines and small business policyholders.

Nothing we have achieved in a very demanding year would have been possible without the commitment of everyone in our organisation and the understanding of our customers. I conclude by expressing my warm thanks to them all for their continued support.

Graham Doswell
Managing Director

Directors and General Management

Directors	<ul style="list-style-type: none">* M. R. Cornwall-Jones MA, ACIS <i>Chairman</i>* W. H. Yates FRICS, <i>Deputy Chairman and Senior Independent Director</i>* D. Christie BA, BSc (Econ) Dip.Ed.* The Very Revd. N. G. Coulton BD <i>the Dean of Newcastle</i>G. V. Doswell FCII, <i>Managing Director</i>* P. J. C. Mawer MA, DPAG. A. Prescott BA, FCA, <i>Group Executive Director</i>* M. C. D. Roberts MA, CA* H. H. Scurfield MA, FIA* N. J. E. Sealy
General Management	<p>G. V. Doswell FCII, <i>Managing Director</i> G. A. Prescott BA, FCA, <i>Group Executive Director</i> 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</p>
Appointed Actuary	I. J. Stirrups FIA
Company Secretary	Mrs R. J. Hall ACIS
Registered and Head Office	Beaufort House, Brunswick Road, Gloucester GL1 1JZ Tel: 01452 528533
Company Registration Number	1718196
Principal London and Investment Office	19-21 Billiter Street, London EC3M 2RY Tel: 020 7528 7364
Auditors	Deloitte & Touche, Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR
Registrar	Computershare Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH
Trustee for Debenture Stock	The Law Debenture Trust Corporation plc, Princes House, 95 Gresham Street, London EC2V 7LY

* *Non-Executive and Independent Directors*

Directors' Biographies

M. R. Cornwall-Jones, Chairman

Appointed to the Board in 1979, and became Chairman in 1993. 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 69.

G. V. Doswell, Managing Director

Joined the group in 1984. Appointed to the Board in July 1995 and became Chief Executive in November 1997. His other directorships include The Baptist Insurance Company PLC, Methodist Insurance PLC, URC Insurance Company Limited, Gerling Global London Market Limited and Pool Reinsurance Company Limited. Member of the Board, Association of British Insurers. A Vice President, the Chartered Insurance Institute. Aged 56.

W. H. Yates, Deputy Chairman

Appointed to the Board in 1985 and became Deputy Chairman in March 1995. He was senior partner of Knight Frank and Deputy Chairman of Woolwich plc. Aged 66.

D. Christie

Appointed to the Board in January 2001. He has been Warden of St Edward's School, Oxford since 1988. Previously he taught and researched economics in schools and universities in the United Kingdom and Europe. He is a Governor of several schools. Aged 59.

N. G. Coulton, The Dean of Newcastle

Appointed to the Board in November 1997. Prior to ordination he was a solicitor. He is a Governor of Dame Allan's schools and of the Newcastle upon Tyne Church High School. He chairs the Moulton Charity and the North East branch of the Council of Christians and Jews and represents the Faith Communities on the North East Assembly. Aged 61.

P. J. C. Mawer

Appointed to the Board in 1996. He was at the period covered by this report Secretary General of the General Synod and the Archbishops' Council of the Church of England. Aged 54.

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 57.

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 and also Chairman of the Church Commissioners Audit Committee. Aged 63.

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 66.

N. J. E. Sealy

Appointed to the Board in April 1999. He retired as Chairman of Smith and Williamson, a firm of Chartered Accountants and a banking and investment house, in October 2000 but remains a non-executive Director. Aged 63.

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2001.

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 41.

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 19.

Dividends

The directors do not recommend the payment of a dividend for the year ended 31 December 2001 (2000 : nil).

Directors

The directors of the company at the date of this report are stated on page 9.

Mr M. R. Cornwall-Jones, Mr M. C. D. Roberts and Mr N. J. E. Sealy retire by rotation and, being eligible, offer themselves for re-election.

Mr B. V. Day retired from the board on 31 December 2001. Mr P. J. C. Mawer retires by rotation, but does not seek re-election. The directors wish to convey their gratitude for the contribution made by both directors.

Mr D. Losse and The Venerable N. Baines have agreed to serve as directors, subject to regulatory approval, with effect from 27 June 2002.

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 31.12.2001	Interest at 1.1.2001
	No.	No.
M. R. Cornwall-Jones	500	500
W. H. Yates	500	500
D. Christie	500	-
The Very Revd. N. G. Coulton	500	500
G. V. Doswell	500	500
P. J. C. Mawer	500	500
G. A. Prescott	1,000	1,000
M. C. D. Roberts	500	500
H. H. Scurfield	500	500
N. J. E. Sealy	500	500

No director had an interest in any other shares or debentures of the group as at 31 December 2001. 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.

Directors' Report

Ownership

At 18 April 2002 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 £4.1million (2000: £4.1 million).

During the last five years, a total of £21.7 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 2001, calculated in accordance with Schedule 7 of the Companies Act 1985, was 22.2 days (2000: 22.4 days)

Introduction of the Euro

The group conducts a small amount of business in the Euro zone. On 1 January 2002, the group's businesses in those countries which introduced the Euro made the conversion transition successfully. The cost of internal resources used has not been separately identified, but is not considered to be material.

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, seven 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 13.

Directors' Report

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
P. J. C. Mawer

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*
D. Christie
The Very Revd. N. G. Coulton
P. J. C. Mawer

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 for 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.

Directors' Report

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.

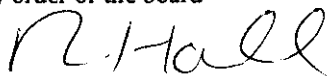
Going concern

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



Mrs R. J. Hall

Secretary

17 May 2002

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 2001 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the accounting policies and related notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein.

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 in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company 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 2001, 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 affairs of the company and of the group as at 31 December 2001, 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

Chartered Accountants and Registered Auditors

Stonecutter Court,
1 Stonecutter Street,
London EC4A 4TR

30 May 2002

Consolidated Profit and Loss Account

for the year ended 31 December 2001

	Notes	2001 £000	2000 £000
TECHNICAL ACCOUNT - GENERAL BUSINESS			
Gross premiums written			
- continuing operations	3(a)	281,649	250,286
- discontinued operations		-	1,339
		<u>281,649</u>	<u>251,625</u>
Outward reinsurance premiums		85,773	73,231
		<u>85,773</u>	<u>73,231</u>
Net premiums written	3(a)	<u>195,876</u>	<u>178,394</u>
Change in the gross provision for unearned premiums		11,625	11,964
Change in the provision for unearned premiums, reinsurers' share		4,859	2,797
		<u>11,625</u>	<u>11,964</u>
Change in the net provision for unearned premiums		<u>(6,766)</u>	<u>(9,167)</u>
		<u>189,110</u>	<u>169,227</u>
Earned premiums, net of reinsurance			
Claims paid			
- gross amount		177,376	154,824
- reinsurers' share		60,470	45,839
		<u>177,376</u>	<u>154,824</u>
		<u>116,906</u>	<u>108,985</u>
Change in the provision for claims			
- gross amount		33,370	39,892
- reinsurers' share		12,057	12,015
		<u>33,370</u>	<u>39,892</u>
		<u>12,057</u>	<u>12,015</u>
		<u>21,313</u>	<u>27,877</u>
Claims incurred, net of reinsurance		138,219	136,862
Net operating expenses	5(a)	<u>63,867</u>	<u>55,279</u>
Total technical charges		<u>202,086</u>	<u>192,141</u>
Balance on the technical account before equalisation provision		(12,976)	(22,914)
Change in the equalisation provision	22	<u>(2,421)</u>	<u>(436)</u>
Balance on the technical account for general business		<u>(15,397)</u>	<u>(23,350)</u>

Consolidated Profit and Loss Account

for the year ended 31 December 2001

	Notes	2001 £000	2000 £000
TECHNICAL ACCOUNT - LONG TERM BUSINESS			
Gross premiums written	3(b)	22,498	20,089
Outward reinsurance premiums		255	341
Earned premiums, net of reinsurance	3(b)	22,243	19,748
Investment income	4	19,605	27,990
Unrealised losses on investments		(32,895)	(5,237)
Total technical income		8,953	42,501
Claims paid			
- gross amount		36,152	35,412
- reinsurers' share		445	172
		35,707	35,240
Change in the provision for claims			
- gross amount		(375)	607
- reinsurers' share		(1)	(9)
		(374)	616
Claims incurred, net of reinsurance		35,333	35,856
Change in other technical provisions			
Long term business provision			
- gross amount		(2,952)	(880)
- reinsurers' share		3	(561)
		(2,955)	(319)
Technical provision for linked businesses		3,096	2,615
Change in other technical provisions, net of reinsurance		141	2,296
Net operating expenses	5(a)	6,096	5,398
Investment expenses and charges		510	812
Tax attributable to long term business	9	725	1,848
Allocated investment return transferred to the non-technical account		797	1,801
Transfer from the fund for future appropriations		(35,794)	(7,915)
		(27,666)	1,944
Total technical charges		7,808	40,096
Balance on the technical account for long term business		1,145	2,405

All the amounts above are in respect of continuing operations

Consolidated Profit and Loss Account

for the year ended 31 December 2001

	Notes	2001 £000	2000 £000
NON-TECHNICAL ACCOUNT			
Balance on the general business technical account		(15,397)	(23,350)
Balance on the long term business technical account		1,145	2,405
Tax attributable to the shareholders' long term business profits		490	1,030
		<u>(13,762)</u>	<u>(19,915)</u>
Investment income	4	20,693	30,028
Unrealised losses on investments		(23,670)	(14,707)
Allocated investment return transferred from the long term business technical account		797	1,801
Investment expenses and charges		(1,413)	(1,003)
Other operations		118	471
Other charges	5(b)	(1,842)	(1,900)
Profit on sale of subsidiary undertaking		-	1,878
		<u>(5,317)</u>	<u>16,568</u>
Operating (loss)/profit		<u>(16,658)</u>	<u>(4,523)</u>
- continuing operations		-	740
- discontinued operations		-	-
Change in equalisation provision	22	<u>(2,421)</u>	<u>436</u>
Loss on ordinary activities before tax	3(c)	(19,079)	(3,347)
Tax on loss on ordinary activities	9	(2,154)	(12)
Loss on ordinary activities after tax		<u>(16,925)</u>	<u>(3,335)</u>
Minority interests	19	2,330	2,330
Loss attributable to shareholders		<u>(19,255)</u>	<u>(5,665)</u>
Charitable grants net of tax relief	10	2,835	2,835
Retained loss for the financial year	17	<u>(22,090)</u>	<u>(8,500)</u>

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 2001

Loss attributable to shareholders	(19,255)	(5,665)
Revaluation of long term business	(1,000)	-
Currency translation differences	(850)	(14)
Total recognised gains and losses for the financial year	<u>18</u>	<u>(5,679)</u>

Consolidated Balance Sheet

at 31 December 2001

	Notes	2001 £000	2000 £000
ASSETS			
Intangible assets			
Goodwill	11	2,994	3,469
Investments	12		
Land and buildings		22,456	20,548
Shares in group undertakings		250	250
Shares in participating interest		41	31
Other financial investments		563,300	623,751
Value of long term insurance business		5,000	6,000
		<u>591,047</u>	<u>650,580</u>
Assets held to cover linked liabilities	13	35,033	31,937
Reinsurers' share of technical provisions			
Provision for unearned premiums		27,295	22,925
Long term business provision	20	1,416	1,413
Claims outstanding		93,938	84,741
		<u>122,649</u>	<u>109,079</u>
Debtors			
Debtors arising out of direct insurance operations	14	52,035	48,880
Debtors arising out of reinsurance operations		36,411	30,129
Other debtors		2,770	3,321
		<u>91,216</u>	<u>82,330</u>
Other assets			
Tangible assets	15	13,192	13,684
Cash at bank and in hand		81,033	56,711
		<u>94,225</u>	<u>70,395</u>
Prepayments and accrued income			
Accrued interest and rent		4,970	5,187
Deferred acquisition costs		16,698	15,992
Other prepayments and accrued income		3,678	2,913
		<u>25,346</u>	<u>24,092</u>
Total assets	3(e)	<u>962,510</u>	<u>971,882</u>

Consolidated Balance Sheet

at 31 December 2001

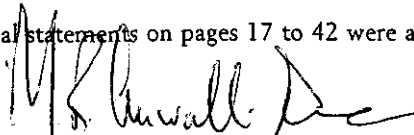
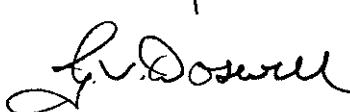
	Notes	2001 £000	2000 £000
LIABILITIES			
Capital and reserves			
Called up share capital	16	20,000	20,000
Long term business reserve	17	5,000	6,000
General reserve	17	5,500	5,500
Profit and loss account	17	82,993	105,933
Equity shareholders' funds	18	<u>113,493</u>	<u>137,433</u>
Minority interests	19	28,076	26,586
Fund for future appropriations		50,544	86,339
Technical provisions			
Provision for unearned premiums		106,766	96,321
Long term business provision	20	223,000	225,915
Claims outstanding		319,446	290,082
Equalisation provision	22	<u>6,156</u>	<u>3,734</u>
		<u>655,368</u>	<u>616,052</u>
Technical provision for linked liabilities		35,033	31,937
Provisions for other risks and charges	23	9,935	13,920
Deposits received from reinsurers		1,052	772
Creditors			
Creditors arising out of direct insurance operations		2,195	2,847
Creditors arising out of reinsurance operations		34,679	23,518
Other creditors including taxation and social security	24	<u>25,490</u>	<u>26,635</u>
		<u>62,364</u>	<u>53,000</u>
Accruals and deferred income		<u>6,645</u>	<u>5,843</u>
Total liabilities		<u><u>962,510</u></u>	<u><u>971,882</u></u>

Parent Company Balance Sheet

at 31 December 2001

	Notes	2001 £000	2000 £000
Intangible assets			
Goodwill		32	52
Fixed assets: investments			
Shares in subsidiaries		119,872	146,883
Shares in participating interest		41	31
		<u>119,913</u>	<u>146,914</u>
Current assets			
Taxation		270	350
Other debtors		10	-
Cash at bank and in hand		9,583	6,469
		<u>9,863</u>	<u>6,819</u>
Creditors			
Amounts falling due within one year: other creditors		315	352
		<u>9,548</u>	<u>6,467</u>
Net current assets			
		<u>129,493</u>	<u>153,433</u>
Total assets less current liabilities			
Creditors			
Amounts falling due after more than one year:			
Debenture stock		6,000	6,000
Corporate business loan	24	10,000	10,000
		<u>16,000</u>	<u>16,000</u>
Net assets		<u>113,493</u>	<u>137,433</u>
Capital and reserves			
Share capital	16	20,000	20,000
Revaluation and other reserves	17	80,501	106,010
Profit and loss account	17	12,992	11,423
Equity shareholders' funds		<u>113,493</u>	<u>137,433</u>

The financial statements on pages 17 to 42 were approved by the board of directors on 17 May 2002 and signed on their behalf by

M. R. CORNWALL - JONES
G. V. DOSWELL

Chairman
Managing Director

Consolidated Cash Flow Statement

for the year ended 31 December 2001 (excluding long term insurance business)

	Notes	2001 £000	2000 £000
Net cash inflow from operating activities	25(a)	35,116	29,582
Servicing of finance			
Loan interest paid		(1,358)	(1,440)
Preference dividends paid		(2,330)	(2,330)
Other interest paid		(150)	(152)
Taxation paid		(687)	(3,133)
Capital expenditure		(2,114)	(4,953)
Acquisitions and disposals	25(c)	1,531	-
Charitable grants paid		(1,435)	(2,835)
Financing			
Capital element of lease purchase rental payments		(391)	(350)
	25(b)	<u>28,182</u>	<u>14,389</u>
Cash flows were invested as follows:			
Increase in cash holdings		24,911	9,262
Net portfolio investment			
Purchases of shares and other variable yield securities		6,189	33,942
Purchases of fixed income securities		25,838	19,829
Purchases of properties		2,448	691
Sales of shares and other variable yield securities		(11,574)	(33,379)
Sales of fixed income securities		(18,012)	(14,669)
Sales of properties		(1,618)	(1,287)
Net investment of cash flows		<u>28,182</u>	<u>14,389</u>
Movement arising from cash flows		28,182	14,389
Movement in long term business		(36,734)	(1,445)
Acquired with subsidiary		-	288
Changes in market values and exchange rate effects		(22,563)	798
Total movement in portfolio investments net of financing		(31,115)	14,030
Portfolio investments net of financing 1 January		717,228	703,198
Portfolio investments net of financing 31 December	25(b)	<u>686,113</u>	<u>717,228</u>

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.

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.

Accounting Policies

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

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

Accounting Policies

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. Land and buildings are stated at open market value as determined by independent qualified surveyors.

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.

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

Deferred taxation is provided at appropriate rates of corporation tax in respect of timing differences and unrealised gains on investments where there is a reasonable probability that such taxation will become payable in the foreseeable future. Allowance is made in the long term business provision and technical provision for linked liabilities for deferred taxation at appropriate discounted rates in respect of the unrealised gains on investments, unrelieved management expenses and other timing differences.

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
Owner occupied buildings	50 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 in 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 on a straight-line basis. The gain or loss on any subsequent disposal of subsidiary or associated undertaking will include any attributable unamortised goodwill.

Notes to the Accounts

1 Profit after taxation

Of the group loss after taxation, £1,569,000 (£1,359,000) profit has been dealt with in the accounts of the parent company.

2 Exchange rates

The principal rates of exchange used for translation are:

	2001	2000
Canada	C\$2.32	C\$2.24
Republic of Ireland	1.63	1.59
Australia	AUS\$2.84	AUS\$2.69

3 Segmental analysis

(a) General business premiums

	2001		2000	
	Gross £000	Net £000	Gross £000	Net £000
Direct:				
Accident	5,975	5,782	5,680	5,494
Motor	35,639	33,350	35,756	33,592
Property	148,868	87,605	134,962	85,039
Liability	37,095	31,507	30,429	25,828
	<u>227,577</u>	<u>158,244</u>	<u>206,827</u>	<u>149,953</u>
Reinsurance accepted and London market	54,072	37,632	43,459	27,102
Continuing operations	<u>281,649</u>	<u>195,876</u>	<u>250,286</u>	<u>177,055</u>
Discontinued operations - United States of America	-	-	1,339	1,339
Total	<u><u>281,649</u></u>	<u><u>195,876</u></u>	<u><u>251,625</u></u>	<u><u>178,394</u></u>

Geographical analysis - on the basis of location of office

United Kingdom	222,932	158,671	199,211	144,301
Australia and New Zealand	25,018	17,151	20,378	14,546
Canada	25,457	13,760	23,003	12,439
Other overseas	8,242	6,294	7,694	5,769
	<u>281,649</u>	<u>195,876</u>	<u>250,286</u>	<u>177,055</u>
Continuing operations	<u>281,649</u>	<u>195,876</u>	<u>250,286</u>	<u>177,055</u>
Discontinued operations - United States of America	-	-	1,339	1,339
Total	<u><u>281,649</u></u>	<u><u>195,876</u></u>	<u><u>251,625</u></u>	<u><u>178,394</u></u>

(b) Long term business premiums

Geographical analysis - on the basis of location of office

United Kingdom	22,407	22,188	20,012	19,702
New Zealand	91	55	77	46
	<u>22,498</u>	<u>22,243</u>	<u>20,089</u>	<u>19,748</u>
Total	<u><u>22,498</u></u>	<u><u>22,243</u></u>	<u><u>20,089</u></u>	<u><u>19,748</u></u>

Notes to the Accounts

3 Segmental analysis (continued)

The analysis of long term business premiums written before reinsurance is:	2001 £000	2000 £000
Life insurance business		
- Single premiums	8,287	3,034
- Regular premiums	6,985	7,497
Annuity business		
- Single premiums	960	3,304
Pension business		
Non-linked contracts		
- Single premiums	482	558
- Regular premiums	2,160	1,743
Linked contracts		
- Single premiums	456	425
- Regular premiums	2,964	3,154
Permanent health insurance	204	374
	<u>22,498</u>	<u>20,089</u>
Gross new annualised regular premiums		
Life insurance	344	613
Pensions	290	531
	<u>634</u>	<u>1,144</u>

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	(19,193)	(9,109)
Australia and New Zealand	(223)	572
Canada	(340)	1,351
Other overseas	(958)	(336)
Long term business	1,635	3,435
Continuing operations	<u>(19,079)</u>	<u>(4,087)</u>
Discontinued operations - United States of America	-	740
	<u>(19,079)</u>	<u>(3,347)</u>

(d) Net assets

United Kingdom	83,701	103,910
Australia and New Zealand	4,792	5,262
Canada	14,287	14,951
Other overseas	(1,714)	(694)
Long term business	12,427	14,004
Continuing operations	<u>113,493</u>	<u>137,433</u>

(e) Total assets

Of the total assets shown on page 20, £319,050,000 (£357,125,000) are attributable to the long term business fund.

Notes to the Accounts

4 Investment income	2001		2000	
	General business £000	Long term business £000	General business £000	Long term business £000
Land and buildings	782	877	701	930
Other investments	15,933	15,114	16,631	15,290
Realised investment gains	3,978	3,614	12,696	11,770
	<u>20,693</u>	<u>19,605</u>	<u>30,028</u>	<u>27,990</u>

5 Expenses	2001		2000	
	General business £000	Long term business £000	General business £000	Long term business £000
(a) Net operating expenses				
Commission paid on direct business	45,937	241	41,048	32
Other acquisition costs	20,047	1,729	17,377	1,943
Change in deferred acquisition costs	(991)	269	(1,335)	30
Administrative expenses	24,362	3,879	20,720	3,436
Reinsurance commissions and profit participation	(25,488)	(22)	(22,531)	(43)
	<u>63,867</u>	<u>6,096</u>	<u>55,279</u>	<u>5,398</u>

Administrative expenses include:

Depreciation	- property	32	-	20	-
	- owned assets	2,585	217	1,386	154
	- leased assets	84	23	199	56
Auditors' remuneration	- parent	2	-	3	-
	- group UK	203	41	179	33
	- group overseas	107	-	68	-
	- group fees for non-audit services	158	21	248	8
Interest payments under lease purchase contracts		108	40	113	35

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

(b) Other charges				
Debenture interest	780	-	780	-
Corporate business loan interest	587	-	682	-
Amortisation of goodwill	475	-	438	-
	<u>1,842</u>	<u>-</u>	<u>1,900</u>	<u>-</u>

(c) Depreciation on land and buildings

Accumulated depreciation on land and buildings occupied by the group was £638,000 (£606,000).

Notes to the Accounts

6 Employee information

The average monthly number of employees, including executive directors, during the year by geographical location was:	2001		2000	
	General business	Long term business	General business	Long term business
	No.	No.	No.	No.
United Kingdom	840	86	855	68
Australia and New Zealand	97	-	75	-
North America	58	-	54	-
Republic of Ireland	16	-	17	-
	<u>1,011</u>	<u>86</u>	<u>1,001</u>	<u>68</u>
	£000	£000	£000	£000
Wages and salaries	21,475	2,120	19,631	1,606
Social security costs	1,692	180	1,594	133
Other pension costs	2,909	245	2,519	310
	<u>26,076</u>	<u>2,545</u>	<u>23,744</u>	<u>2,049</u>

7 Directors' emoluments

		2001	2000
		£	£
Aggregate emoluments of the directors of the company		593,136	582,416
Highest paid director	- emoluments	206,709	196,540
	- accrued pension benefit	86,490	74,180
	- accrued lump sum entitlement	259,470	222,550
Chairman's fees		40,000	40,000

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

An ex gratia payment of £25,000 (£25,000) was made to one director who retired in the previous financial year.

There were 2 (2) executive directors who were members of the group's defined benefit pension scheme during the year.

Notes to the Accounts

8 Pensions

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 1998. 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 schemes assets was £68,581,000 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 £2,720,000 (£2,452,000). Of this £2,632,000 (£2,357,000) 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 2001. The financial assumptions used, which are the average for all schemes weighted according to the value of each schemes liabilities, were as follows:

Inflation	2.25%
Increase in salary	4.00%
Increase in pensions in payment	2.25%
Discount rate for scheme liabilities	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 1998 and 31 December 1999.

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

	Value at	Expected
	31.12.01	rate of
	£000	return
Equities	59,364	8.00%
Bonds	18,898	5.50%
Other	12,082	4.50%
Total market value of assets	90,344	
Present value of scheme liabilities	71,802	
Net surplus in the schemes	18,542	
Deferred tax liability	5,563	
Net pension asset	12,979	
Group net assets excluding net pension asset	113,493	
Group net assets including net pension asset	126,472	

Notes to the Accounts

9 Taxation

	Long term business technical account		Non-technical account	
	2001 £000	2000 £000	2001 £000	2000 £000
UK Corporation tax at 30% (30%)	690	1,812	1,113	1,648
Overseas tax	35	36	227	313
Deferred tax	-	-	(3,985)	(3,004)
Share of associated undertaking's tax	-	-	1	1
Tax attributable to shareholders' long term business profits	-	-	490	1,030
	<u>725</u>	<u>1,848</u>	<u>(2,154)</u>	<u>(12)</u>

10 Charitable grants

Charitable grants of £4,050,000 (£4,050,000) gross and £2,835,000 (£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.

	2001 £000	2000 £000
Carrying value 1 January	3,469	3,832
Additions	-	75
Amortisation during the year	(475)	(438)
Carrying value 31 December	<u>2,994</u>	<u>3,469</u>

Notes to the Accounts

12 Investments Group	2001			2000		
	General business £000	Long term business £000	Total £000	General business £000	Long term business £000	Total £000
<i>Current value</i>						
Freehold land and buildings						
- occupied by the group	2,240	392	2,632	2,381	-	2,381
- other	8,767	11,057	19,824	7,865	10,302	18,167
	<u>11,007</u>	<u>11,449</u>	<u>22,456</u>	<u>10,246</u>	<u>10,302</u>	<u>20,548</u>
Investments in group undertakings						
- preference shares	250	-	250	250	-	250
Investment in participating interest						
- ordinary shares	41	-	41	31	-	31
Other financial investments						
Shares and other variable yield securities and units in unit trusts:						
- listed	166,949	153,040	319,989	193,585	184,895	378,480
- unlisted	1,342	1,761	3,103	1,300	1,574	2,874
	<u>168,291</u>	<u>154,801</u>	<u>323,092</u>	<u>194,885</u>	<u>186,469</u>	<u>381,354</u>
Debt and other fixed income securities:						
- listed	128,106	53,361	181,467	122,272	57,255	179,527
- unlisted	1,704	2,243	3,947	351	590	941
Loans secured by mortgages	1,362	48,925	50,287	3,068	55,664	58,732
Other loans	4,131	376	4,507	2,853	344	3,197
	<u>135,303</u>	<u>104,905</u>	<u>240,208</u>	<u>128,544</u>	<u>113,853</u>	<u>242,397</u>
Total	<u>303,594</u>	<u>259,706</u>	<u>563,300</u>	<u>323,429</u>	<u>300,322</u>	<u>623,751</u>
<i>Cost</i>						
Freehold land and buildings	10,436	12,099	22,535	8,837	10,839	19,676
Investments in group undertakings	250	-	250	250	-	250
Investment in participating interest	30	-	30	25	-	25
Other financial investments	236,960	156,254	393,214	232,728	167,987	400,715
	<u>247,676</u>	<u>168,353</u>	<u>416,029</u>	<u>241,840</u>	<u>178,826</u>	<u>420,666</u>
Debt and other fixed income securities valued at amortised cost						
Cost	112,360	48,530	160,890	107,735	47,744	155,479
Cumulative amortisation	(655)	(1,359)	(2,014)	(382)	(1,212)	(1,594)
Current value	111,705	47,171	158,876	107,353	46,532	153,885
Unamortised maturity value	(2,179)	(2,067)	(4,246)	(2,183)	(2,110)	(4,293)
Maturity value	<u>109,526</u>	<u>45,104</u>	<u>154,630</u>	<u>105,170</u>	<u>44,422</u>	<u>149,592</u>
Market value	<u>115,265</u>	<u>51,263</u>	<u>166,528</u>	<u>112,255</u>	<u>51,450</u>	<u>163,705</u>

Owner occupied properties were valued at market value based on vacant possession at 31 December 2000. Other properties were valued on an open market existing use basis at 31 December 2001.

The aggregate cost of the parent company's investments in subsidiary undertakings was £22,533,000 (£24,023,000).

Notes to the Accounts

13 Assets held to cover linked liabilities	2001		2000	
	Current value £000	Historical cost £000	Current value £000	Historical cost £000
<i>Group</i>	<u>35,033</u>	<u>28,493</u>	<u>31,937</u>	<u>22,064</u>

14 Debtors arising out of direct insurance operations

	2001			2000		
	General business £000	Long term business £000	Total £000	General business £000	Long term business £000	Total £000
<i>Group</i>						
Policyholders	19,700	731	20,431	18,964	609	19,573
Intermediaries	<u>31,604</u>	<u>-</u>	<u>31,604</u>	<u>29,307</u>	<u>-</u>	<u>29,307</u>
	<u>51,304</u>	<u>731</u>	<u>52,035</u>	<u>48,271</u>	<u>609</u>	<u>48,880</u>

15 Tangible assets

<i>Group</i>	£000
Cost:	
At 1 January	26,192
Additions	3,496
Exchange movements	(63)
Disposals	<u>(1,053)</u>
At 31 December	<u>28,572</u>
Depreciation:	
At 1 January	12,508
Provided in the year	3,591
Exchange movements	(37)
Disposals	<u>(682)</u>
At 31 December	<u>15,380</u>
Net book value at 31 December 2001	
General business	12,020
Long term business	<u>1,172</u>
	<u>13,192</u>
Net book value at 1 January 2001	
General business	12,674
Long term business	<u>1,010</u>
	<u>13,684</u>

The above 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

	2001		2000	
	Group £000	Parent £000	Group £000	Parent £000
Authorised, allotted, issued 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
<i>Group</i>					
Balance 1 January	-	6,000	5,500	105,933	117,433
Revaluation of long term business	-	(1,000)	-	-	(1,000)
Currency translation differences	-	-	-	(850)	(850)
Transfer from profit and loss account	-	-	-	(22,090)	(22,090)
Balance 31 December	-	5,000	5,500	82,993	93,493
<i>Parent</i>					
Balance 1 January	106,010	-	-	11,423	117,433
Revaluation of group undertakings	(25,509)	-	-	-	(25,509)
Transfer from profit and loss account	-	-	-	1,569	1,569
Balance 31 December	80,501	-	-	12,992	93,493

Included in the group profit and loss account are £64,840,000 (£70,555,000) of unrealised investment gains which the directors do not regard as distributable.

18 Reconciliation of movements in group shareholders' funds

	2001 £000	2000 £000
Loss for the financial year	(19,255)	(5,665)
Revaluation of long term business	(1,000)	-
Other recognised gains and losses	(850)	(14)
	(21,105)	(5,679)
Charitable grants net of tax relief	(2,835)	(2,835)
Net movements in shareholders' funds	(23,940)	(8,514)
Opening shareholders' funds	137,433	145,947
Closing shareholders' funds	113,493	137,433

Notes to the accounts

19 Minority interests

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

	Profit and Loss Account		Balance Sheet	
	2001	2000	2001	2000
	£000	£000	£000	£000
Non-equity interests				
Ecclesiastical Insurance Office plc				
2.8% First Cumulative Preference shares of £1 each	2	2	76	77
10% Redeemable Second Cumulative Preference shares of £1 each	300	300	3,000	3,000
8.625% Non-Cumulative Irredeemable Preference shares of £1 each	2,028	2,028	25,000	23,509
	<u>2,330</u>	<u>2,330</u>	<u>28,076</u>	<u>26,586</u>

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
2002	5 per cent
2003 to 2007	2½ per cent
2008 to 2012	Nil

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

20 Long 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		2001	2000
		%	%
Assurances:			
Life		2.5	2.5-3.0
Pensions		2.5	2.5-3.0
Annuities:			
With profit	- deferred	1.5-2.5	1.5-2.5
Without profit	- deferred	1.5-2.5	1.5-2.5
	- vested	4.0-4.5	4.5

(b) Mortality tables

Assurances:		AM92	AM92
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 allowances were made for additional mortality resulting from AIDS where appropriate.

Notes to the accounts

21 Outstanding claims

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.

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 £6,156,000 (£3,734,000) and decreased both the balance sheet on the general business technical account and the profit before taxation for the year by £2,421,000 (£436,000).

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 that are expected to crystallise in the foreseeable future.

Deferred tax on unrealised investment gains not provided for in the accounts amounted to £10,001,000 (£13,643,000).

	2001	2000
	£000	£000
Deferred tax provided at 1 January	13,920	16,924
Decrease in provision	(3,985)	(3,004)
Deferred tax provided at 31 December	<u>9,935</u>	<u>13,920</u>

Notes to the Accounts

24 Other creditors including taxation and social security	2001 £000	2000 £000
Amounts falling due within one year:		
Other creditors	7,164	7,213
Taxation	1,131	2,380
	<u>8,295</u>	<u>9,593</u>
Amounts falling due after more than one year:		
Debenture stock	6,000	6,000
Corporate business loan	10,000	10,000
Other creditors	1,195	1,042
	<u>17,195</u>	<u>17,042</u>
Total	<u>25,490</u>	<u>26,635</u>
Included in other creditors are obligations under lease purchase contracts due:		
In 1 year or less	559	505
Between 2 and 5 years	1,182	1,041
Over 5 years	13	1
Total	<u>1,754</u>	<u>1,547</u>

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 within five years. Since the end of the financial year the company has repaid £5,000,000 of the corporate business loan.

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. A levy of £737,000 (*nil*) was raised by the Financial Services Compensation Scheme during the year.

Notes to the Accounts

25 Notes to the cash flow statement	2001	2000
(a) Reconciliation of loss on ordinary activities before tax to net cash flow from operating activities	£000	£000
Loss on ordinary activities before tax	(19,079)	(3,347)
Depreciation charges	2,701	1,605
Amortisation of fixed interest securities	300	283
Amortisation of goodwill	475	438
Unrealised losses on investments	24,420	14,707
Increase in net general insurance technical provisions	29,041	37,105
Profit relating to long term business	(1,635)	(3,435)
Cash received from long term business	1,723	-
Share of profits of associates	(11)	(6)
Loan interest payable	1,358	1,440
Other interest payable	150	152
Realised investment gains	(4,530)	(12,696)
Loss on sales of tangible fixed assets	50	16
Movement in other debtors and creditors	(1,063)	(3,289)
Exchange and other non-cash movements	1,216	(1,513)
Profit on sale of subsidiary undertaking	-	(1,878)
Net cash inflow from operating activities	<u>35,116</u>	<u>29,582</u>

(b) Movements in cash, portfolio investments and financing

	At 1 January 2001 £000	Cash flow £000	Changes in long term business £000	Exchange and other non-cash movements £000	At 31 December 2001 £000
Cash at bank and in hand	56,711	24,911	(361)	(228)	81,033
Shares and other variable yield securities	381,385	(5,385)	(31,667)	(21,200)	323,133
Fixed income securities	242,647	7,826	(8,949)	(1,066)	240,458
Land and buildings	20,548	830	1,147	(69)	22,456
Assets held to cover linked liabilities	31,937	-	3,096	-	35,033
Borrowing due after 1 year	(16,000)	-	-	-	(16,000)
	<u>717,228</u>	<u>28,182</u>	<u>(36,734)</u>	<u>(22,563)</u>	<u>686,113</u>

(c) Acquisitions and disposals include the disposal of 1,491,000 8.625% Non-Cumulative Irredeemable Preference shares in Ecclesiastical Insurance Office plc, which were sold for cash on 14 December 2001.

26 Operating leases

	2001		2000	
Annual commitments and payments under non-cancellable operating leases were as follows:	Premises £000	Equipment £000	Premises £000	Equipment £000
Commitments				
Expiring:				
Within 1 year	313	358	248	457
Between 2 and 5 years	1,075	482	531	924
Over 5 years	1,469	-	1,423	-
Total	<u>2,857</u>	<u>840</u>	<u>2,202</u>	<u>1,381</u>
Payments included in operating expenses	<u>2,387</u>	<u>856</u>	<u>1,770</u>	<u>943</u>

Notes to the accounts

27 Capital Commitments

At 31 December 2001 there were no outstanding contracts for capital expenditure (*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 9. 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
<i>Incorporated and operating in Great Britain, engaged in investment, insurance and financial services or other insurance related business:</i>			
Ecclesiastical Insurance Office plc	Ordinary shares	100%	
	2.8% First Cumulative Preference shares	69.5%	
	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%
URC Insurance Company Limited	Ordinary shares		100%
<i>Incorporated and operating in Australia, engaged in insurance business:</i>			
EIG - Ansvar Limited	Ordinary shares		100%
<i>Incorporated and operating in New Zealand, engaged in insurance business:</i>			
EIG - Ansvar Insurance (New Zealand) Limited	Ordinary shares		100%
EIG - Ansvar Life Limited	Ordinary shares		100%
Associated Undertakings			
<i>Incorporated and operating in Great Britain, engaged in insurance business:</i>			
Gerling Global London Market Limited	100,000 issued Ordinary shares of £1 each	30%	

Notes to the accounts

28 Parent, subsidiary and associated undertakings (continued)

In addition, there are seven other wholly owned subsidiary undertakings 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 £583,000 (£693,000) school fee annuities were accounted for by the group to Beaufort House Trust Limited, a company under common control. Of this £195,000 (£215,000) was prepaid at the balance sheet date. This has been accounted for in the long term business technical account.

Financial Summary

	2001	2000	1999	1998	1997
	£000	£000	£000	£000	£000
Premium income					
Gross premiums written					
General business	281,649	251,625	235,647	204,051	202,245
Long term business	22,498	20,089	19,967	19,256	18,338
Total	<u>304,147</u>	<u>271,714</u>	<u>255,614</u>	<u>223,307</u>	<u>220,583</u>
Net premiums written					
General business	195,876	178,394	166,929	141,074	138,319
Long term business	22,243	19,748	19,666	18,921	18,024
Total	<u>218,119</u>	<u>198,142</u>	<u>186,595</u>	<u>159,995</u>	<u>156,343</u>
Summary of results					
(Loss)/profit on ordinary activities before tax	(19,079)	(3,347)	43,957	661	32,770
(Loss)/profit on ordinary activities after tax	(16,925)	(3,335)	31,256	(3,276)	27,839
Minority interests	2,330	2,330	12,791	(218)	6,986
	(19,255)	(5,665)	18,465	(3,058)	20,853
Charitable grants net of tax relief	2,835	2,835	2,825	2,795	2,781
Retained (loss)/profit for the financial year	<u>(22,090)</u>	<u>(8,500)</u>	<u>15,640</u>	<u>(5,853)</u>	<u>18,072</u>
Capital and reserves					
Share capital	20,000	20,000	20,000	20,000	20,000
Long term insurance business reserve	5,000	6,000	6,000	6,000	6,000
General reserve	5,500	5,500	5,500	5,500	5,500
Retained profits	82,993	105,933	114,447	96,572	103,337
	<u>113,493</u>	<u>137,433</u>	<u>145,947</u>	<u>128,072</u>	<u>134,837</u>

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 27 June 2002 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 2001 and the report of the auditors thereon.
2. To re-elect Mr M. R. Cornwall-Jones as a director.*
3. To re-elect Mr M. C. D. Roberts as a director. *
4. To re-elect Mr N. J. E. Sealy as a director. *
5. To consider the declaration of a dividend.
6. 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
17 May 2002

* Brief biographies of the directors seeking re-election are shown on page 10.

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.