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ECCLESIASTICAL

ECCLESIASTICAL INSURANCE OFFICE plc

REPORT AND ACCOUNTS 31 DECEMBER 2003

Report and Accounts 31 December 2003

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Chairman's Statement

In my first statement since my appointment as Chairman of the Group, I am in the fortunate position of reporting on an impressive set of achievements and results which pay tribute to the leadership of my predecessor, Mark Cornwall-Jones.

The strong recovery in Ecclesiastical's financial performance after the enormous challenges faced by the insurance industry over the last few years is the product of a clear focus by the Board and management on what needed to be done to fulfil our mission to produce profit and service for the benefit of the Church of England and its partner churches. In achieving this aim in an increasingly competitive world, it is essential that we maintain a commercial attitude if we are to run the business successfully whilst taking care to observe a set of values that accord with Christian conscience. These principles have guided the implementation in 2003 of a significant number of initiatives that have been the culmination of a careful planning process extending, in some instances, over long periods. The actions taken, supported by the return to growth in shareholders' funds, put Ecclesiastical in a good position to prosper in the improved market conditions that now exist especially in general insurance.

The recovery in stock markets has contributed to the increase in shareholders' funds but we should not let that disguise the substantial progress that has been made in improving the profitability of our general insurance business to an acceptable level. The key trends can be seen from the following figures which are drawn from the consolidated profit and loss accounts and balance sheets on pages 20 to 24 together with comparable information for 2001.

	2003	*2002*	*2001*
			Restated
	£million	*£million*	*£million*
Gross premium income (general and long term)	**373.1**	*333.6*	*304.1*
Balance on general business technical account	**12.3**	*1.9*	*(15.4)*
Investment income	**19.0**	*17.5*	*16.4*
Other charges (including exceptional restructuring costs)	**(4.6)**	*(0.5)*	*(0.5)*
General business result before investment gains and losses	**26.7**	*18.9*	*0.5*
Realised investment (losses)/gains	**(0.4)**	*4.7*	*3.6*
Unrealised investment gains/(losses)	**19.6**	*(29.2)*	*(23.7)*
Total investment gains/(losses)	**19.2**	*(24.5)*	*(20.1)*
Balance on long term business technical account	**(3.9)**	*1.2*	*1.1*
Profit/(loss) attributable to shareholders	**31.2**	*(4.6)*	*(16.5)*
Dividends and grant to Allchurches Trust (net of tax)	**(7.4)**	*(6.8)*	*(7.2)*
Retained gain/(loss)	**23.8**	*(11.4)*	*(23.7)*
Shareholders' funds	**158.5**	*131.9*	*145.3*

The rate of growth in total premium income has increased to 12% despite a further and slight reduction in premiums from the long term business. The increase of 13% in general insurance premium has been supported by a positive rating environment which has in turn led to the significant increase in the underwriting result to £12.3 million after the welcome turnround in 2002. Other charges include exceptional restructuring costs of £4.2 million incurred principally to improve the service we give to intermediaries and their customers in the UK.

Chairman's Statement

Following the decisions taken in 2002 to reduce exposure to equity markets, there were no material changes to the structure of the equity portfolio during the year. This strategy allowed us to participate in the gradual recovery of stock markets leading to growth in the value of our investments of £19.6 million after the sizeable unrealised losses of the previous years.

Good performance from both underwriting and investment have combined to accelerate the progress we have made towards strengthening our capital base. Shareholders' funds have risen to £158 million from £132 million. This is a strong recovery which has made up more than half of the ground lost since 1999 through declining stock markets.

This significant progress is important for two reasons. First, it has enabled the Board to approve an increase to £4.25 million in the charitable grant to our parent, Allchurches Trust Limited, and this amount will be available to fund distribution by the Trust to the Church at large in 2004. Despite all the challenges faced since the late 1990's, Ecclesiastical has had a fine record in maintaining its grant from year to year and I am delighted that our performance in 2003 has justified an increase this year; the first since 1997 when the grant was raised to £4 million. This is the tangible recognition of the financial objective of our mission to produce profit and service for the Church.

Secondly, the success in strengthening our capital base is also important for the confidence of our policyholders in the security that we provide for them. This confidence can be expressed in terms of our solvency margin which has improved to 70% on the traditional basis of measurement. Securing the right degree of protection for consumers is one of the key objectives of the industry's regulator, the Financial Services Authority. Among the many regulatory reforms that are being introduced is a fundamental change in the way that the financial strength of insurance companies is assessed. We believe that our solvency margin will remain strong when measured against the more demanding standards of the new capital adequacy regime which the regulator will be implementing from 2004 onwards.

It is possible that the regulatory thrust towards the adoption of high standards of risk management and internal controls will encourage a better disciplined yet still competitive market. While these efforts to raise standards are laudable and necessary, the industry is faced with an unprecedented range of regulatory reforms that have to be embraced alongside the day to day business of meeting customers' needs. The demands on every company are daunting but they have a particularly heavy impact on smaller organisations which, like Ecclesiastical, have relatively limited resources to manage the transition. I hope that in planning further change the Financial Services Authority will heed the industry's calls to take account of the aggregate effect of the many initiatives already underway.

Our strategy to seek increases in general insurance premiums where justified has been largely successful as will be seen from the progress reports contained in the Managing Director's review of Group operations on pages 5 to 9. It does seem that the insurance industry and its policyholders have now come to terms with the need for premiums to rise to levels that are commensurate with ever increasing exposures and the prospect of weaker investment returns in the future. The adjustment has not been an easy one to make and I hope that the insurance industry will not be tempted once again to allow its prices to be driven down to uneconomic levels. The damage inflicted on the balance sheets of insurers and reinsurers will take some time to repair. We must remember the lessons of the recent past to ensure that policyholders have ready access to a dependable market to meet their needs for protection against risk.

From 1 August 2003, Ecclesiastical Life Limited was formed to operate all of the Group's life and pensions business within a single company. The change was effected following approval by the High Court to an insurance business transfer scheme under the Financial Services and Markets Act 2000. Both the weakening of consumer confidence and the uncertainty created by the regulatory changes I have already mentioned are a clear justification for the sharper focus we will be able to bring to the successful development of our financial services operation through this new legal structure.

Not least is a period of stability important if public confidence in the savings industry is to be successfully rebuilt. As our own figures reveal, sales growth has been difficult to achieve as a result of the economic uncertainty that prevailed in 2003. Looking forward, the outlook is still clouded by delays in reaching key decisions on the structure of sales regulation to accompany the Government's initiative to help close the savings gap and on the charging levels that will be permitted for the proposed simpler "stakeholder" products. Setting strategic direction in such an unsettled environment is not possible with any real sense of clarity and the hiatus detracts from our long term ability to meet customers' needs.

Chairman's Statement

From the consumers' perspective, the reputation of the industry as a whole has unfortunately suffered although it has responded well to many emerging problems. The commitment to provide flood cover whilst sea and river defences are improved to adequate standards, the continued availability of liability insurance in the face of the ever increasing cost of compensation and the part played in supporting a terrorism insurance facility are all positive examples. While there may well be more to be done, especially in the area of long term savings, Ecclesiastical places great importance on the quality of the service and products it provides. The feedback we receive and the level of business retention we achieve are testaments to our success in delivering a high level of service to our customers.

Good governance is at the heart of the Board's objectives to preserve Ecclesiastical's strong brand, reputation and values. A revised version of the Combined Code has now been published following the Higgs review of the role and effectiveness of non-executive directors. We are therefore taking this timely opportunity to ensure that our standards of corporate governance remain in line with best practice in accordance with our stated policy.

That leads me naturally on to talk about the composition of our Board. As mentioned at the beginning of this statement, Mark Cornwall-Jones retired after 10 years as Chairman at our last annual general meeting. He had been a non-executive director since 1979 and has made an outstanding contribution to Ecclesiastical over all those years. It is a pleasure that his strong association with the Group will continue through his chairmanship of Allchurches Trust Limited in succession to Sir Alan McLintock who retired from that position last July. We are also delighted that his contribution has been recognised through the award of the OBE.

We welcome Peter Clark who was appointed to our main Board from 1st January 2004 having earlier been appointed to the Board of Ecclesiastical Life Limited in June 2003. Peter brings to us many years' experience within the financial services industry and we look forward to the contribution he will make.

It has been a busy year in which we have accomplished a lot. The efforts and plans we have been making over several years to improve the composition and performance of the Group's various businesses have been well rewarded by the results we have achieved. We look forward to the future with confidence.

I thank my Board collegues and all Ecclesiastical Group staff both here and abroad for their support, help and advice to me as incoming Chairman. I thank them also for their contribution towards making this such an excellent year for our Company, enabling us to increase our giving to Allchurches Trust Limited and to rebuild the strength of our balance sheet.

Review of Group Operations

We made real progress in 2003 towards meeting our strategic objectives across the Group. Strong financial results and the implementation of plans in many areas to ensure the future success of Ecclesiastical in achieving its mission distinguished the year's performance. The improving trend we expected in general insurance profitability strengthened and our investment strategy allowed us to benefit from the good measure of recovery in stock markets around the world. In addition, the process of re-focusing activity on sectors where Ecclesiastical's expertise can make a difference in satisfying the needs of our customers continued. All these positive factors enabled us to achieve significant growth in shareholders' funds and to increase the level of charitable grant made to our ultimate parent, Allchurches Trust.

Underwriting policy has been aimed for some time at increasing general insurance premium rates selectively to levels we judge appropriate to the risks run and to a period of reduced returns from investments. The improved underwriting climate and our response to it have led to a welcome rise in the positive balance reported in the technical account for general business to £12.3 million from £1.9 million in 2002. Before equalisation charges, the combined ratio improved to 92% on an earned basis (97% in 2002). After taking into account exceptional costs the combined ratio fell to 94%. Gross premium income increased by 13% but the higher prices charged by reinsurers affected the increase in net premiums which was 8%.

Our strategy has also been directed towards ensuring that the Group's organisation structure is in the right shape to respond profitably to the many demands, opportunities and challenges of the dynamic market and regulatory environment in which we operate. The exceptional charge of £4.2 million recognised in the non-technical account relates to the restructuring of some of our UK operations during the year. After all other charges, taxation, and an increased grant of £4.25 million gross to Allchurches Trust, shareholders' funds have risen by almost £27 million to £158 million. Measured against net written premium, the solvency margin improved to 70%.

The results of the Group's long term business in 2003 reflect the achievements of Ecclesiastical Life Limited in its first period of operation. The three previous years of falling equity markets understandably held back consumer confidence and signs of recovery did not begin to appear until October. Though sales rose encouragingly towards the end of the year, the recovery came too late to arrest the decline in premium income which finished down by 2% on the previous year.

General Business - United Kingdom

Ecclesiastical's UK retail division accounts for more than half of the total general insurance premium written by the Group. Its results flourished in 2003 amidst the implementation of a significant programme of change designed to improve the cost-effectiveness and level of service provided to intermediaries.

Gross premium income rose by 14%. The majority of the decisions to increase premium rate increases had been implemented in 2002 although the relatively high inflationary pressures affecting the settlement costs of personal injury claims has required us to take further action in the liability classes of business. The progressive effect of the measures taken to improve underwriting performance coupled with a relatively light year for severe weather losses have contributed to a further improvement in the combined ratio to 92% (93% in 2002).

The low rainfall during the summer led to a surge in the numbers of subsidence claims reported from September onwards affecting residential property in both private and church ownership as well as some commercial buildings. We have provided prudently for the expected ultimate cost of this event which is likely to have a continued effect on claims activity during 2004. Other material losses were largely concentrated on schools and churches with arson being the all too frequent and regrettable cause of large fires.

Review of Group Operations

Following an extensive review, a plan was implemented to reorganise the structure for handling business placed with us by intermediaries. The main objectives were to keep pace with external developments and changing customer expectations, so ensuring that Ecclesiastical will continue to be a credible participant in the intermediated sector of the market. The plan involved the conversion of ten branch offices into seven regional centres with a strengthened capability to provide a full underwriting and policy administration service at local level. The reorganisation was also facilitated by the successful completion in 2003 of the major project to install a new computer software system that supports our general insurance business in the UK. The early indications are that the new structure will be successful in meeting the objectives we set. The scale of the change was large for an organisation of Ecclesiastical's size and regrettably involved some job losses - a significant departure from our previous practice. All those whose jobs were threatened were treated as fairly and sensitively as possible and were provided with practical support and advice to help find alternative employment.

Differentiating Ecclesiastical by providing a high level of customer service in keeping with our customers' expectations is a key component of the Group's strategy and has driven the restructuring of our intermediary operations. In other parts of the UK organisation, research indicates that satisfaction with our service to customers in the church, and with our claims service generally, is being successfully maintained at a high level. The value placed on the wide range of risk management advice provided on the ground by our Insurance Consultants and Surveyors and the flexible approach we adopt to meeting the insurance needs of the Church is borne out by a further increase in the numbers of Anglican churches we insure. We enjoy a strong and close working relationship at all levels in the Church and we hope this will be enhanced by the progressive implementation of our Customer Relationship Management system.

As an endorsement of our continued efforts to raise standards we were delighted to have successfully accomplished the transition to the external quality management standard ISO 9001:2000 for the whole of our UK retail division. This accreditation underpins our established Quality Policy.

General Insurance - International

Our International business comprises overseas branch and agency operations, international business written in London and reinsurance accepted from other companies around the world including business from our partnerships with the Baptist and Methodist insurance companies in the UK. The pace of change and progress across this important group was equally brisk and successful. The significant efforts made to improve performance were rewarded by a profitable underwriting result of £3.7 million after the loss of £1.8 million in 2002. The combined ratio was 93% and gross premiums written decreased by %.

In Canada, the programme of increasing premium rates and tightening underwriting acceptance criteria produced a sharp turn-round in performance to an underwriting profit of £1.6 million from the loss of £0.5 million in 2002. This result has, however, been achieved at the cost of a heavier loss of business than we would have wished in some parts of the portfolio. Our exposure to the number of natural disasters that occurred in the year was thankfully limited to claims arising from Hurricane Juan which hit Nova Scotia in September. In local currency, gross written premium increased by 14% boosted by the doubling of our share to 100% of the Anglican Diocesan Scheme. We have embarked on a strategic review of our Canadian branch designed to give a clear focus on the direction of its business development and the resources needed to support it with appropriate levels of customer service and systems capability. Good progress has already been made under the leadership of Mrs Jacinta Whyte, who joined the organisation in October.

Our business in Ireland produced an excellent result with an underwriting profit of £1.4 million. Premium growth was contained at a much more modest level than achieved in 2002 as good results encouraged the resurgence of strong competition in this market.

There has been a continued rationalisation of our exposure to the London market. The business previously written through Sterling Global London Market and the transit account written by Gloucester Underwriting Agency have been placed into run-off using the services of PRO Solutions Ltd., specialists in this field.

Our remaining London market business had another successful year. The facultative property portfolio written through Ecclesiastical Underwriting Management Limited produced a profitable result on closure of the 2001 underwriting year and the future prospects appear encouraging. The aggregate result for all of our London market operations was a profit of £2.4 million after making appropriate provisions for run-off costs.

Review of Group Operations

The main contributors to the portfolio of inwards reinsurance business accepted are the arrangements that we have with the Baptist and Methodist insurance companies. The original agreements were entered into for five year periods from 1998 and we are pleased that these close relationships will be continuing on terms that will bring mutual benefits. The previous year's unusual trend of large fires in Methodist churches unfortunately continued into the early part of 2003 and has resulted in a further underwriting loss overall from this sector. A programme of surveys is amongst the measures that have been put in place to raise risk management standards and improve claims experience.

Results from our agency business continued to improve although they were adversely affected by unusually severe weather conditions in both Cyprus and Malta. We are very pleased with the constructive approach of GAP Vassilopoulos Group and John Makryiannis & Son Ltd. in Cyprus, and SMS Insurance Agency in Malta to the measures we have jointly taken to ensure that these agency businesses can produce an acceptable performance in the future. After the enjoyment of a successful relationship over many years we reluctantly concluded that our involvement with W. A. Hienfeld in Holland should come to an end and no business will be written from January 2004.

General Insurance - Subsidiary Companies

Our specialist subsidiary in the UK, Ansvar Insurance Company, which focuses on meeting the insurance needs of the "not for profit" sector and those individuals who empathise with it, enjoyed an excellent year. Profit before tax advanced strongly to £2.6 million (£0.6 million in 2002) - a record achievement since the company was acquired by the Group in 1998. Underwriting performance and gross premium growth were enhanced by the positive premium rating environment with a profit of £1.6 million and a growth rate of 17% being achieved.

The results produced by EIG-Ansvar in Australia have been no less impressive. After several years of over-competitiveness, the market appears to have entered a period of welcome stability with insurers able to achieve adequate rating levels in all classes of business. Reform of tort law continued through the year, improving the liability insurance environment. The ability to obtain higher premium rates enabled EIG-Ansvar to increase its gross premiums by 20% in local currency, breaking through the A$100 million barrier for the first time. Despite bush fires around Canberra at the start of the year and a severe storm in Melbourne at the end, the underwriting result improved with a profit of £2.0 million on the UK accounting basis.

Market conditions were similarly favourable in New Zealand and gross premiums increased by 13% to NZ$15 million. An underwriting profit of £0.3 million was achieved. This small operation has a strong position amongst churches of all denominations and is successfully developing a broader range of products to meet customer needs. A small portfolio of life business transacted by a separate subsidiary company in New Zealand was successfully transferred via a Scheme of Arrangement to Cigna Life Insurance in July. A profit before tax of £3.8 million has been consolidated from our operations in Australia and New Zealand.

Long Term Business - Ecclesiastical Life Limited

The Group's financial services business is now operated through a subsidiary company, Ecclesiastical Life Limited. Amongst the reasons for the change in legal structure was the belief that it would be managerially and operationally more efficient to combine the Group's long term businesses and that this would lead to greater flexibility in developing new products and strategies in a competitive market.

The environment has been extremely challenging and it has been difficult for Ecclesiastical Life to make significant progress. New business sales slowed and new premiums, which include contributions to our OEIC investment funds, fell by 15% on the industry standard measure. The comparable figure for the industry as a whole was a decline of 11%. Sales of OEIC funds themselves were, nevertheless, relatively buoyant and increased by 5%. In other areas, mortgage completions dipped and commission income from Hinton and Wild, our specialist IFA in the equity release market, fell slightly. Considerable efforts made to develop sales through new distribution channels met with some success towards the end of the year. Our OEIC funds are now being promoted selectively to the IFA market and we have entered an agreement with an Appointed Representative that will facilitate distribution of our annuity products.

Review of Group Operations

In common with most other providers of with profits products it has been necessary to reduce bonuses further so that the value of maturing policies can be brought more closely into line with the returns achieved on the underlying investments. Whilst this is understandably unwelcome news to policyholders, we have taken great care in communicating the background to the decisions which have necessarily been made. The continued volatility and limited recovery in stock markets required us to reduce bonuses in July and from January 2004 following the annual declaration for 2003. Although the concept and governance of with profits funds continue to be the subject of major regulatory review, we still believe that the ability to smooth investment returns offers valuable protection to policyholders against stock market volatility. Supported by a good record of investment performance, we are producing returns to our policyholders that are in excess of the average rate of inflation.

The technical account for long term business records a negative balance of £3.9 million. Under the terms of the transfer scheme, the with profit fund received a compensating payment for the acquisition, by the without profit fund, of the right to profits previously attributable to the with profit fund. The amount of compensation paid is a charge against the income on the technical account and has reduced the balance shown by £2.8 million. It is expected that profits equivalent to this amount will emerge in the future. Extra reserves have been set aside to cover improved mortality on the annuity business but the impact of this cost on the result has been mitigated by the underlying profit of the life business which has emerged during the year. The cost of implementing the transfer scheme has been borne by shareholders' funds.

Finance and Investment

Faltering economic growth and the probability of war in Iraq saw stock markets plunge to further lows during the first quarter. The rapid conclusion of the eventual conflict was followed by growing evidence of a sustained recovery in global economic activity. In this improving environment stock markets rallied with the FTSE-100 rising by 36% from its low point in March to finish the year more than 13% ahead.

Despite the recovery, volatility remained high and in these conditions new investment was directed toward fixed interest securities. Cash flow from general insurance operations continued to be strong. This strategy contributed to a healthy rise in investment income which, excluding realised gains, increased by 9%. Realised losses on investments were insignificant compared to gains of £4.7 million in 2002.

Fund performance compared favourably to peer groups and equivalent benchmarks. Of our retail investment funds, the Higher Income and International funds retained their first quartile ranking on a total return basis over the one year period to 31st December while the Amity and UK Equity Growth funds were second quartile performers. The European Growth fund rose by 22% but performance lagged the sector average return of 24% depressing the ranking to the third quartile. Over three and five year periods all five funds were ranked in the first quartile. Our retail investment funds are managed by Allchurches Investment Management Services Limited, a subsidiary company. We were delighted that Allchurches achieved the highest average rating for risk-adjusted three year performance on its initial entry at the end of the year into the ISA league run by Morningstar - a leading provider of investment information.

The good recovery in equity values has resulted in unrealised gains of £19.6 million which have boosted shareholders' funds and helped to strengthen our solvency margin.

Risk Management

We have been steadily developing our process of risk management to ensure that effective internal systems and controls are in place in line with emerging regulatory requirements and good corporate governance. Risk management is embedded in the organisation through the setting of corporate objectives and the annual planning cycle. An executive Group Risk Management Committee meets regularly to review the control framework and to address issues arising across the Group.

The existence of an appropriate reinsurance programme is an important element of risk management. Careful consideration is given to counter-party risk in the choice of reinsurer with selection being based on a formal analysis of financial security. Despite the generally downward trend in financial security ratings, the Group's reinsurance programme is backed by a panel which meets the Group's standards.

ıtandards for the calculation of levels of reserves have been maintained in accordance with established practice as described n the notes to the accounts. We believe that we have made prudent provisions overall for claims outstanding and those ncurred but not yet reported that fully reflect emerging claims experience and legal judgements, especially as they affect the iability classes of business. In addition, the amount of acquisition cost that it is appropriate to defer has been reduced ollowing the restructuring that has taken place in the UK. The impact of the revised basis is an additional cost of £2.8m vhich has been charged to the technical account for general business.

'he net addition of £4.8 million to the statutory provision for claims equalisation includes an additional amount of £1.6 nillion to bring the total of £14.7 million up to the maximum amount required by the prescribed formula. This amount is vailable to smooth the effect of exceptional claims experience in future years and may be released according to the rovisions of the formula. It is excluded from the calculation of the solvency margin.

t continues to be our policy not to use complex financial instruments. Carefully controlled use has, however, been made of traightforward instruments to protect the value of shares held in the general fund and in the with profit fund of Ecclesiastical ife Limited.

egulatory Developments

'here was no relaxation in 2003 in the scale of the regulatory reform programme on which the Financial Services Authority as embarked. Almost every part of our business in the UK faces change as the process of consultation evolves into the nplementation of new rules. The introduction of a new regime to measure capital adequacy for both long term and general usiness as well as a wide-ranging reform of regulatory reporting will have a major impact on workload. Regulation of the elling and administration of general insurance will be in place from January 2005 and mortgage regulation from this coming October. Coupled with the requirement to demonstrate explicit standards of risk management during 2004, all this activity epresents a major agenda for change. While we have put in place mechanisms to ensure that the Group maintains the highest andards of compliance in line with the supporting aims of our mission statement, it is a demanding challenge which bears eavily, and expensively, on the limited resources available in our modestly sized yet broadly based organisation.

ignificant regulatory change is also occurring in other parts of the world where we operate. In Australia, EIG-Ansvar was ranted a Financial Services Licence issued by the Australian Securities and Investment Commission. This is the second of ne two licences required under the regulatory framework and the enabling legislation primarily addresses the way advice is rovided to customers.

n Canada, progress has been made to ensure compliance with emerging federal and provincial privacy legislation. In ddition, a risk based approach to capital adequacy was introduced and our branch there adequately meets the new solvency equirements.

onclusion

his Review has summarised the many achievements that have been accomplished during 2003. We are fortunate that our forts have been matched by an excellent all-round financial performance. It is especially pleasing that this has enabled us to einforce our mission to provide profit and service to the Church through an increase in this year's charitable grant to llchurches Trust.

many respects it has been a difficult year which has required us to take tough decisions in the long term interest of the usiness. In thanking everyone in the Group for their hard work, it is appropriate to recognise the professional way in which l our staff, past and present, have faced up to the challenge of change.

In the early hours of Friday 12 December 2003, firefighters were sent to tackle flames at St Paul's Church Addlestone, Surrey. The cause of the fire was arson and the extent of the damage has been estimated at £3,000,000

In July the Rev Antony-Feltham-White (left) and the Rev Keith Morrison, the Ecclesiastical sponsored, Revelation Racing team, entered the Goodwood Festival of Speed Downhill Soapbox Challenge. Driver Keith and Antony were invited on to the winners' platform to meet Sterling Moss and John Surtees, and to receive the Spirit of Soapboxing Award for their gallant effort.

EIG-Ansvar Australia was presented with an unusual claim on 30 June 2003, when a truck came off the road at Nagambie, Victoria and ended up wedged into the Chapel of the Lake.

Directors and General Management

Directors	* N. J. E. Sealy FCA *Chairman* * W. H. Yates FRICS *Deputy Chairman and Senior Independent Director* * The Rt Revd. N. Baines BA *Bishop of Croydon* * D. Christie BA, BSc (Econ) Dip. Ed. * P. N. S. Clark MA, FIA * The Very Revd. N. G. Coulton BD *Sub-Dean of Christ Church Cathedral, Oxford* G. V. Doswell FCII *Managing Director* * D. R. Losse MA G. A. Prescott BA, FCA *Group Executive Director* * M. C. D. Roberts MA, CA * H. H. Scurfield MA, FIA
General Management	G. V. Doswell FCII *Managing Director* G. A. Prescott BA, FCA *Group Executive Director* K. Bogue MA, FIA K. J. Burdett FCII M. Goodale BA, FIA F. J. Holland MBCS W. J. Lumsden FCCA W. G. Shearn BA, FCII
Appointed Actuary	I. J. Stirrups FIA
Company Secretary	Mrs R. J. Hall ACIS
Registered and Head Office	Beaufort House, Brunswick Road, Gloucester GL1 1JZ Tel: 01452 528533
Company Registration Number	24869
Principal London and Investment Office	19-21 Billiter Street, London EC3M 2RY Tel: 020 7528 7364
Auditors	Deloitte & Touche LLP, London
Registrar	Computershare Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH

* *Non-Executive and Independent Directors*

Directors' Biographies

N.J.E. Sealy
Chairman
Appointed to the Board in 1999 and became Chairman in June 2003. He retired as Chairman of Smith & Williamson, a firm of Chartered Accountants and a banking and investment house, in 2000 but remains a non-executive Director.
Aged 65.

W. H. Yates
Deputy Chairman
Appointed to the Board in 1985 and became a Deputy Chairman in 1995. He was Senior Partner of Knight Frank and Deputy Chairman of Woolwich plc.
Aged 68.

D. Christie
Appointed to the Board in 2001. He has been Warden of St Edward's School, Oxford since 1988. Previously he taught and researched in economics in schools and universities in the United Kingdom and Europe. He is a Governor of several schools.
Aged 61.

P. N. S. Clark
Appointed to the Board in 2004. He was the Chief Actuary and a Director of AXA Sun Life until 2002. A past President of the Institute of Actuaries. He is an academic visitor at Oxford University.
Age 57

N. G. Coulton
Sub-Dean of Christ Church Cathedral, Oxford
Appointed to the Board in 1997. Until January 2003, Dean of Newcastle where he was a Governor of two independent schools and represented the Faith Communities on the North East Assembly. Prior to ordination he was a solicitor. He is a member of the Church of England Legal Advisory Commission and on the Executive of the Association of English Cathedrals and a Governor of Ripon College, Cuddesdon.
Aged 63.

N. Baines
Bishop of Croydon
Appointed to the Board in 2002. Prior to ordination he was a professional government linguist. He has served on the General Synod of the Church of England and the Board of Mission. He regularly broadcasts on the BBC.
Aged 46.

G. V. Doswell
Managing Director
Joined the Group in 1984. Appointed to the Board in 1995 and became Chief Executive in 1997. His other directorships include The Baptist Insurance Company PLC, Methodist Insurance PLC and Pool Reinsurance Company Limited. Member of the Board, Association of British Insurers.
Aged 58.

D. R. Losse
Appointed to the Board in 2002. Until 2000 he was Deputy Chairman of international reinsurance broker, the Benfield Group plc, and retired as an Adviser to that company in 2002. A past President of the Insurance Institute of London and a past Master of the Worshipful Company of Insurers. He is Chairman of Eton End School Trust and is actively involved with a number of other charities.
Aged 66.

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 Association of British Insurers, 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 59.

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 Chairman of CCLA Investment Managers Ltd and also Chairman of the Church Commissioners Audit Committee.
Aged 65.

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 Deputy Chairman of Help the Hospices.
Aged 68.

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

Principal activity

The principal activity of the group is the transaction of most forms of general and long term insurance in the United Kingdom and overseas. A list of the company's subsidiary undertakings is given on page 49 and details of overseas branches are shown on page 51.

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 22.

Dividends

Dividends paid and accrued were as follows:	**2003** **£000**	*2002* *£000*
First Preference shares	**7**	*7*
Second Preference shares	**300**	*300*
Third Preference shares	**1,520**	*1,520*
Irredeemable Preference shares	**2,156**	*2,156*
Ordinary shares - interim	**410**	-
	4,393	*3,983*

The directors do not recommend a final dividend on the Ordinary shares *(2002:nil)*.

Directors

The directors of the company at the date of this report are stated on page 12.

Mr N. J. E. Sealy was appointed as chairman on 26 June 2003.

Mr D. Christie, Mr M. C. D. Roberts and Mr W. H. Yates retire by rotation and, being eligible, offer themselves for re-election.

Mr P. N. S. Clark was appointed to the board on 1 January 2004. In accordance with the articles of association, he will retire at the forthcoming annual general meeting and, being eligible, offers himself for election.

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 31.12.2003 **No.**	*Interest at 1.1.2003 or date of appointment* *No.*
N. J. E. Sealy	**500**	*500*
W. H. Yates	**500**	*500*
Rt Revd. N. Baines	**500**	*500*
D. Christie	**500**	*500*
P. N. S. Clark	-	-
The Very Revd. N. G. Coulton	**500**	*500*
G. V. Doswell	**500**	*500*
D. R. Losse	**500**	*500*
G. A. Prescott	**1,000**	*1,000*
M. C. D. Roberts	**500**	*500*
H. H. Scurfield	**500**	*500*

Directors' Report

Directors' interests

No director had an interest in any other shares or debentures of the group as at 31 December 2003. There has been no change in these interests since the end of the financial year to the date of this report, except Mr Clark who acquired 500 2.8% First Cumulative Preference shares of Ecclesiastical Insurance Office plc on 18 March 2004. No contract of significance subsisted during or at the end of the financial year in which a director was or is materially interested.

Ownership

At 25 March 2004 all the issued equity capital of the company and all the 16 million 9.5% Redeemable Third Non-Cumulative Preference shares, together with 172,950 of the 2.8% First Cumulative Preference shares, were owned by Ecclesiastical Insurance Group plc. In turn, the entire equity capital of Ecclesiastical Insurance Group plc was owned by Allchurches Trust Limited.

Charitable and political donations

Charitable donations paid and provided for by the company in the year amounted to £4.25 million (*2002:£4.0 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 briefing groups, group newsletters and the annual publication of financial reports. Regular meetings are held between management and employees and discussion encouraged. It is the group's policy to give full consideration to applications for employment by disabled persons. Appropriate training is arranged for disabled persons, including retraining for alternative work of employees who become disabled, to promote their career development within the organisation.

Policy on payment of creditors

It is the group's policy to pay creditors promptly and fully, in accordance with the terms of their contracts. The group has not adopted any particular external code. The number of days' purchases represented by the amounts due to trade creditors of the company in the United Kingdom at 31 December 2003, calculated in accordance with Schedule 7 of the Companies Act 1985, was 6.2 days (*2002:9.8 days*).

Corporate governance

The Ordinary shares of the company are not quoted on the Stock Exchange and therefore its operations do not come within the ambit of the Combined Code issued by the London Stock Exchange. 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, N. J. E. Sealy, eight other non-executive directors and two executive directors and has ten scheduled meetings each year. The board is responsible for the overall strategic direction of the group. Executive management of the group is delegated to the managing director and general management team. The board has an established audit and compliance committee and a remuneration and appointments committee, details of which are given on page 16.

Directors' Report

Audit and compliance committee

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

M. C. D. Roberts *Chairman*	H. H. Scurfield
P. N. S. Clark	N. J. E. Sealy
D. R. Losse	W. H. Yates

The committee had five scheduled meetings during the 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:

N. J. E. Sealy *Chairman*	
The Rt. Revd. N. Baines	D. R. Losse
D. Christie	M. C. D. Roberts
P. N. S. Clark	H. H. Scurfield
The Very Revd. N. G. Coulton	W. H. Yates

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

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

Remuneration policy

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

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

Executive directors and general management

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

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

Service contracts

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

Pensions arrangement

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

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

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. Business and investment reports are submitted regularly 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

On 1 August 2003, Deloitte & Touche, the company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 4 September 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the company's auditor will be proposed at the forthcoming Annual General Meeting.

By order of the board

R. Hall

Mrs R. J. Hall
Secretary

25 March 2004

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 Office plc

We have audited the financial statements of Ecclesiastical Insurance Office plc for the year ended 31 December 2003 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the statement of accounting policies and the related notes 1 to 29. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company 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 2003, and the effect of the movement in those reserves during the year on the balance on the general business technical account and profit on ordinary activities before taxation, are disclosed in note 22.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the company's and the group's affairs and of the group as at 31 December 2003 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors

London
2004

Consolidated Profit and Loss Account

for the year ended 31 December 2003

		Notes	2003	2002
TECHNICAL ACCOUNT - GENERAL BUSINESS			**£000**	*£000*
Gross premiums written		3(a)	**353,657**	*313,685*
Outward reinsurance premiums			**(132,731)**	*(109,463)*
Net premiums written		3(a)	**220,926**	*204,222*
Change in the gross provision for unearned premiums			**17,061**	*11,039*
Change in the provision for unearned premiums, reinsurers' share			**(8,388)**	*(2,566)*
Change in the net provision for unearned premiums			**8,673**	*8,473*
Earned premiums, net of reinsurance			**212,253**	*195,749*
Claims paid	- gross amount		**155,234**	*167,947*
	- reinsurers' share		**(43,209)**	*(55,067)*
			112,025	*112,880*
Change in the provision for claims	- gross amount		**22,319**	*15,265*
	- reinsurers' share		**(5,842)**	*(1,491)*
			16,477	*13,774*
Claims incurred, net of reinsurance			**128,502**	*126,654*
Net operating expenses		5(a)	**66,664**	*63,456*
Total technical charges			**195,166**	*190,110*
Balance on the technical account before equalisation provision			**17,087**	*5,639*
Change in the equalisation provision		22	**(4,770)**	*(3,782)*
Balance on the technical account for general business			**12,317**	*1,857*

All the amounts above are in respect of continuing operations.

Consolidated Profit and Loss Account

for the year ended 31 December 2003

TECHNICAL ACCOUNT - LONG TERM BUSINESS		Notes	2003 £000	*2002* *£000*
Gross premiums written		3(b)	**19,463**	*19,925*
Outward reinsurance premiums			**(451)**	*(522)*
Earned premiums, net of reinsurance			**19,012**	*19,403*
Investment income		4	**14,656**	*32,899*
Unrealised gains/(losses) on investments			**19,054**	*(58,670)*
Total technical income			**52,722**	*(6,368)*
Claims paid	- gross amount		**33,869**	*32,012*
	- reinsurers' share		**(146)**	*(166)*
			33,723	*31,846*
Change in the provision for claims	- gross amount		**(493)**	*685*
	- reinsurers' share		**92**	*(34)*
			(401)	*651*
Claims incurred, net of reinsurance			**33,322**	*32,497*
Change in other technical provisions				
Long term business provision	- gross amount		**880**	*(8,361)*
	- reinsurers' share		**633**	*175*
			1,513	*(8,186)*
Technical provision for linked business			**9,944**	*(4,074)*
Change in other technical provisions, net of reinsurance			**11,457**	*(12,260)*
Net operating expenses		5(a)	**5,502**	*5,569*
Investment expenses and charges		4	**3,200**	*610*
Tax attributable to long term business		9	**1,943**	*(2,484)*
Allocated investment return transferred to the non-technical account			**2,512**	*(1,231)*
Transfer from the fund for future appropriations			**(1,363)**	*(30,276)*
			11,794	*(27,812)*
Total technical charges			**56,573**	*(7,575)*
Balance on the technical account for long term business			**(3,851)**	*1,207*

All the amounts above are in respect of continuing operations.

Consolidated Profit and Loss Account

for the year ended 31 December 2003

NON-TECHNICAL ACCOUNT	Notes	2003 £000	*2002 £000*
Balance on the general business technical account		**12,317**	*1,857*
Balance on the long term business technical account		**(3,851)**	*1,207*
Tax attributable to the shareholders' long term business profits	9	**-**	*517*
		8,466	*3,581*
Investment income	4	**18,962**	*22,166*
Unrealised profit/(losses) on investments		**19,580**	*(29,172)*
Allocated investment return transferred from the long term business technical account		**2,512**	*(1,231)*
Investment expenses and charges	4	**(1,429)**	*(1,038)*
Other charges - recurring	5(b), 12	**(418)**	*(461)*
- exceptional	5(c)	**(4,155)**	*-*
		35,052	*(9,736)*
Operating profit/(loss)		**48,288**	*(2,373)*
Change in equalisation provision	22	**(4,770)**	*(3,782)*
Profit/(loss) on ordinary activities before tax	3(c)	**43,518**	*(6,155)*
Tax (charge)/credit on profit/(loss) on ordinary activities	9	**(12,331)**	*1,601*
Profit/(loss) attributable to shareholders		**31,187**	*(4,554)*
Dividends	10	**4,393**	*3,983*
Charitable grants net of tax relief	11	**2,975**	*2,800*
		7,368	*6,783*
Retained profit/(loss) for the financial year	18	**23,819**	*(11,337)*

Non-equity interests included in dividends are disclosed in note 10 to the accounts.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2003

	Notes	2003 £000	*2002 £000*
Profit/(loss) attributable to shareholders		**31,187**	*(4,554)*
Revaluation of long term business		**-**	*(1,000)*
Currency translation differences		**2,801**	*(1,137)*
Total recognised gains and losses for the financial year	19	**33,988**	*(6,691)*

Consolidated and Parent Balance Sheets

at 31 December 2003

	Notes	2003		2002	
		Group	Parent	Group	Parent
ASSETS		£000	£000	£000	£000
Goodwill	12	2,089	2,089	2,507	2,507
Investments					
Land and buildings	13	19,271	18,709	19,021	18,779
Shares in group undertakings	13	250	53,340	250	48,708
Other financial investments	13	600,178	292,836	486,040	378,906
Value of long term insurance business		4,000	-	4,000	-
		623,699	364,885	509,311	446,393
Assets held to cover linked liabilities	14	40,903	-	30,959	5,664
Reinsurers' share of technical provisions					
Provision for unearned premiums		39,684	30,827	29,614	23,543
Long term business provision	20	609	-	1,242	1,192
Claims outstanding	21	103,019	89,370	95,855	86,315
		143,312	120,197	126,711	111,050
Debtors					
Debtors arising out of direct insurance operations	15(a)	63,326	46,346	51,720	39,657
Debtors arising out of reinsurance operations	15(b)	10,234	10,129	14,111	13,577
Amounts due from group undertakings		-	7,214	-	1,549
Other debtors		1,790	959	1,498	909
		75,350	64,648	67,329	55,692
Other assets					
Tangible assets	16	9,424	7,207	11,358	10,286
Cash at bank and in hand		88,644	70,724	125,959	111,135
		98,068	77,931	137,317	121,421
Prepayments and accrued income					
Accrued interest and rent		4,931	2,635	4,904	3,940
Deferred acquisition costs		24,863	17,878	17,247	13,134
Other prepayments and accrued income		3,703	2,284	2,496	1,970
		33,497	22,797	24,647	19,044
Total assets	3(e)	1,016,918	652,547	898,781	761,771

Consolidated and Parent Balance Sheets

at 31 December 2003

	Notes	2003 Group	2003 Parent	*2002 Group*	*2002 Parent*
LIABILITIES		**£000**	**£000**	*£000*	*£000*
Capital and reserves					
Called up share capital	17	**58,277**	**58,277**	*58,277*	*58,277*
Share premium account	18	**352**	**352**	*352*	*352*
Revaluation reserve	18	**-**	**34,173**	*-*	*29,541*
Long term business reserve	18	**4,000**	**-**	*4,000*	*-*
General reserve	18	**10,000**	**10,000**	*10,000*	*10,000*
Profit and loss account	18	**85,847**	**55,674**	*59,227*	*33,686*
Shareholders' funds	19	**158,476**	**158,476**	*131,856*	*131,856*
Fund for future appropriations		**10,238**	**-**	*11,600*	*11,600*
Technical provisions					
Provision for unearned premiums		**139,089**	**106,158**	*117,240*	*93,195*
Long term business provision	20	**215,482**	**-**	*214,655*	*164,953*
Claims outstanding	21	**361,742**	**317,337**	*334,059*	*303,522*
Equalisation provision	22	**14,708**	**14,247**	*9,938*	*9,602*
		731,021	**437,742**	*675,892*	*571,272*
Technical provision for linked liabilities		**40,903**	**-**	*30,959*	*5,664*
Provisions for other risks and charges	23	**19,708**	**13,019**	*10,004*	*9,896*
Deposits received from reinsurers		**26**	**26**	*24*	*24*
Creditors					
Creditors arising out of direct insurance operations		**3,304**	**1,657**	*2,034*	*643*
Creditors arising out of reinsurance operations	15(b)	**19,239**	**13,142**	*16,931*	*12,487*
Other creditors including taxation and social	24	**16,029**	**10,333**	*11,855*	*9,796*
Amounts due to group undertakings		**-**	**2,410**	*-*	*2,409*
		38,572	**27,542**	*30,820*	*25,335*
Accruals and deferred income		**17,974**	**15,742**	*7,626*	*6,124*
Total liabilities		**1,016,918**	**652,547**	*898,781*	*761,771*

Non-equity interests included in shareholders' funds are disclosed in note 19 to the accounts.

The financial statements on pages 20 to 49 were approved by the board of directors on 25 March 2004 and signed on their behalf by:

N. J. E. SEALY *Chairman*

G. V. DOSWELL *Managing Director*

Consolidated Cash Flow Statement

for the year ended 31 December 2003 (excluding long term insurance business)

	Notes	2003 £000	2002 £000
Net cash inflow from operating activities	25(a)	**68,041**	*50,136*
Servicing of finance			
Interest paid		**(103)**	*(111)*
Preference dividends paid		**(3,983)**	*(3,983)*
Taxation paid		**(5,111)**	*(1,458)*
Capital expenditure			
Purchase of tangible fixed assets		**(2,022)**	*(1,594)*
Proceeds from the disposal of fixed assets		**317**	*679*
Acquisitions and disposals		**137**	*(6)*
Equity dividends paid		**(410)**	-
Charitable grants paid		**(4,000)**	*(2,000)*
Financing			
Capital element of lease purchase rental payments		**(426)**	*(425)*
	25(b)	**52,440**	*41,238*
Cash flows were invested as follows:			
Decrease/(increase) in cash holdings		**(11,850)**	*25,235*
Net portfolio investment			
Purchases of shares and other variable yield securities		**31,597**	*5,471*
Purchases of fixed income securities		**282,969**	*111,807*
Purchases of properties		**18**	*11,990*
Sales of shares and other variable yield securities		**(24,416)**	*(34,599)*
Sales of fixed income securities		**(224,696)**	*(74,693)*
Sales of properties		**(1,182)**	*(3,973)*
Net investment of cash flows		**52,440**	*41,238*
Movement arising from cash flows		**52,440**	*41,238*
Movement in long term business		**7,460**	*(39,780)*
Changes in market values and exchange rate effects		**27,117**	*(30,181)*
Total movement in portfolio investments net of financing		**87,017**	*(28,723)*
Portfolio investments net of financing 1 January		**662,229**	*690,952*
Portfolio investments net of financing 31 December	25(b)	**749,246**	*662,229*

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 1998 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. For businesses acquired or disposed of during the year, the results and cash flows relating to a business are included in the consolidated profit and loss account and the consolidated cash flow statement from the date of acquisition or up to the date of disposal.

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

General business technical account (continued)

Unexpired risks

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

Claims incurred

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

Claims outstanding

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

Deferred acquisition costs

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

Equalisation provision

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

Long term business technical account

Premiums

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

Claims

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

Deferred acquisition costs

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

Bonuses

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

Accounting Policies

Long term business technical account (continued)

Long term business provision

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

Allocation of surpluses and fund for future appropriations

Surpluses arising on the long term business funds are determined by an actuarial valuation of the assets and liabilities relating to each fund. A proportion of the surplus on the participating fund is appropriated by the directors to participating policyholders by way of bonuses, with the unallocated balance carried forward in the fund for future appropriations. The surplus on the non-participating fund, representing shareholders' interests, is transferred to the non-technical account from the long term business technical account.

Investments

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

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

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

In the parent company balance sheet, investments in subsidiary undertakings are stated at the lower of net asset value or directors' valuation. The surplus or deficit over cost arising from that valuation is taken to 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, and the movement during the year is recognised in the profit and loss account. The value of realised gains and losses includes an adjustment for previously recognised unrealised gains or losses on investments disposed of in the accounting period.

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

Accounting Policies

Deferred taxation

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

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

Tangible assets

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

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

Value of long term insurance business

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

Pensions

In accordance with SSAP 24 pension costs are charged so as to spread the long term cost over the expected service lives of employees.

Leasing commitments

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

Goodwill

Goodwill arising on an acquisition, being the difference between the cost and the fair value of assets and liabilities acquired, is capitalised in the balance sheet and amortised through the profit and loss account over its estimated useful economic life of .0 years, on a straight-line basis. The gain or loss on any subsequent disposal of a subsidiary or associated undertaking will include any attributable unamortised goodwill.

Notes to the Accounts

1 Profit after taxation

Of the group profit after taxation, £27,999,000 profit *(2002:£6,164,000 loss)* has been dealt with in the accounts of the parent company.

2 Exchange rates

	2003	2002
The principal rates of exchange used for translation are:		
Canada	**C$2.31**	*C$2.54*
Republic of Ireland	**€ 1.42**	*€ 1.53*
Australia	**AUS$2.38**	*AUS$2.86*

3 Segmental analysis

(a) General business premiums

	2003 Gross £000	2003 Net £000	2002 Gross £000	2002 Net £000
Direct:				
Accident	**7,635**	**7,271**	*6,925*	*6,640*
Motor	**30,164**	**27,324**	*35,862*	*31,244*
Property	**196,007**	**90,532**	*164,047*	*84,645*
Liability	**69,424**	**60,501**	*48,403*	*41,131*
	303,230	**185,628**	*255,237*	*163,660*
Reinsurance accepted and London market	**50,427**	**35,298**	*58,448*	*40,562*
Total	**353,657**	**220,926**	*313,685*	*204,222*

Geographical analysis - on the basis of location of office

	2003 Gross £000	2003 Net £000	2002 Gross £000	2002 Net £000
United Kingdom	**269,326**	**169,988**	*249,933*	*166,004*
Australia and New Zealand	**47,324**	**27,708**	*32,292*	*20,137*
Canada	**25,990**	**16,205**	*20,767*	*10,805*
Other overseas	**11,017**	**7,025**	*10,693*	*7,276*
Total	**353,657**	**220,926**	*313,685*	*204,222*

b) Long term business premiums

Geographical analysis - on the basis of location of office

	2003 Gross £000	2003 Net £000	2002 Gross £000	2002 Net £000
United Kingdom	**19,463**	**19,012**	*19,815*	*19,339*
New Zealand	-	-	*110*	*64*
Total	**19,463**	**19,012**	*19,925*	*19,403*

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

Notes to the Accounts

3 Segmental analysis (continued)	2003	*2002*
(b) Long term business premiums (continued)		
The analysis of long term business premiums written before reinsurance is:	**£000**	*£000*
Life insurance business		
- Single premiums	**4,533**	*6,522*
- Regular premiums	**5,716**	*6,477*
Annuity business		
- Single premiums	**334**	*785*
Pension business		
Non-linked contracts		
- Single premiums	**2,901**	*653*
- Regular premiums	**3,013**	*2,136*
Linked contracts		
- Single premiums	**427**	*477*
- Regular premiums	**2,325**	*2,635*
Permanent health insurance	**214**	*240*
	19,463	*19,925*
Gross new annualised regular premiums		
Life insurance	**252**	*169*
Pensions	**344**	*300*
	596	*469*

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

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

(c) Profit/(loss) before taxation		
United Kingdom	**38,977**	*(15,358)*
Australia and New Zealand	**3,829**	*943*
Canada	**3,222**	*1,181*
Other overseas	**1,341**	*355*
Long term business	**(3,851)**	*6,724*
Total	**43,518**	*(6,155)*

(d) Net assets		
United Kingdom	**117,282**	*95,670*
Australia and New Zealand	**9,947**	*5,998*
Canada	**18,356**	*14,493*
Other overseas	**(526)**	*(1,573)*
Long term business	**13,417**	*17,268*
Total	**158,476**	*131,856*

(e) Total assets

Of the total assets shown on page 23, £285,954,000 *(2002:£279,266,000)* are attributable to the long term business fund.

4 Investment income

	2003 General business £000	2003 Long term business £000	*2002 General business £000*	*2002 Long term business £000*
Land and buildings	**1,453**	**19**	*1,544*	*745*
Other investments	**17,509**	**14,637**	*15,918*	*14,359*
Realised investment gains	**-**	**-**	*4,704*	*17,795*
Investment income	**18,962**	**14,656**	*22,166*	*32,899*
Investment expenses and charges:				
Investment management expenses, including interest	**1,045**	**685**	*1,038*	*610*
Realised investment losses	**384**	**2,515**	*-*	*-*
Investment expenses and charges	**1,429**	**3,200**	*1,038*	*610*
Net investment return	**17,533**	**11,456**	*21,128*	*32,289*

5 Expenses

(a) Net operating expenses

	2003 General business £000	2003 Long term business £000	*2002 General business £000*	*2002 Long term business £000*
Commission paid on direct business	**51,458**	**(35)**	*48,734*	*60*
Other acquisition costs	**13,870**	**-**	*19,823*	*1,735*
Change in deferred acquisition costs	**1,244**	**44**	*(767)*	*218*
Administrative expenses	**37,809**	**5,660**	*24,986*	*3,736*
Reinsurance commissions and profit participation	**(37,717)**	**(167)**	*(29,320)*	*(180)*
	66,664	**5,502**	*63,456*	*5,569*

Administrative expenses include:

		2003 General business £000	2003 Long term business £000	*2002 General business £000*	*2002 Long term business £000*
Depreciation	- owned assets	**3,656**	**427**	*3,113*	*98*
	- leased assets	**95**	**(52)**	*(76)*	*62*
Auditors' remuneration	- parent	**234**	**-**	*170*	*15*
	- group UK, including parent	**297**	**38**	*206*	*41*
	- group overseas	**101**	**-**	*72*	*-*
	- group fees for non-audit services	**128**	**39**	*121*	*21*
Interest payments under lease purchase contracts		**103**	**27**	*111*	*32*

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

(b) Other charges

Other charges consist of the amortisation of goodwill, which is disclosed in note 12.

(c) Exceptional items

The exceptional charge of £4.2 million incurred during the year relates to the restructure of the company's head office and UK branches.

6 Employee information

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

	2003 General business No.	2003 Long term business No.	*2002 General business No.*	*2002 Long term business No.*
United Kingdom	**839**	**85**	*829*	*89*
Australia and New Zealand	**99**	**-**	*98*	*-*
Canada	**58**	**-**	*66*	*-*
Republic of Ireland	**16**	**-**	*16*	*-*
	1,012	**85**	*1,009*	*89*
	£000	**£000**	*£000*	*£000*
Wages and salaries	**23,925**	**2,167**	*23,119*	*1,989*
Social security costs	**1,798**	**201**	*1,796*	*162*
Other pension costs	**5,108**	**270**	*3,286*	*265*
	30,831	**2,638**	*28,201*	*2,416*

7 Directors' emoluments

		2003 £	*2002 £*
Aggregate emoluments of the directors of the company		**712,493**	*617,912*
Highest paid director	- emoluments	**251,618**	*228,645*
	- accrued pension benefit	**102,000**	*93,020*
	- accrued lump sum entitlement	**305,980**	*279,060*
Chairmens' fees		**51,250**	*40,000*

Two directors (2002:two) who were employed by Ecclesiastical Insurance Office plc, were members of the group's defined benefit pension scheme during the year.

In addition one director (2002: none) received an ex-gratia payment of £25,000 during the year.

8 Pensions

The group has continued to account for pension costs in accordance with SSAP 24, although in accordance with FRS 17 transitional arrangements, additional disclosures required have also been presented.

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

The most recent actuarial valuation showed that the market value of the scheme's assets was £86,187,000 and that the actuarial value of the assets was in excess of 120% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The contribution of the group to the fund is 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 £4,351,000 (*2002:£2,943,000*). Of this £4,132,000 (*2002:£2,854,000* 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 have increased to 21.6% of pensionable salary together with an annual contribution of £127,000 and a special contribution of £200,000 as recommended by the scheme actuary. It is assumed that there will be a 1% margin between investment return and salary growth. The latest SSAP 24 valuation of the scheme was at 31 December 2002, when the market value of the assets, at £2,711,000, represented 81% of the benefits that had accrued to members. In Australia, EIG-Ansvar operates, through an AMP Masterplan, a defined contribution plan that complies with the Superannuation Industry (Supervision) Act, 1993. Employees contribute at a rate of 5% of basic salary, and the company at a rate of 9%.

In addition, in accordance with Financial Reporting Standard (FRS) 17, the full actuarial valuation for each defined benefit pension scheme has been reviewed and updated at 31 December 2003. The financial assumptions used, which are the average for all schemes weighted according to the value of each schemes liabilities, were as follows:

	2003	*2002*	*2001*
Inflation	**2.75%**	*2.25%*	*2.25%*
Increase in salary	**4.00%**	*4.00%*	*4.00%*
Increase in pensions in payment	**2.75%**	*2.25%*	*2.25%*
Discount rate for scheme liabilities	**5.50%**	*5.50%*	*5.50%*

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

On full compliance with FRS 17, on the basis of the above assumptions, the amounts that would have been charged to the consolidated profit and loss account and consolidated statement of total recognised gains and losses for the year ended 31 December 2003 are shown on page 35.

The difference between the actual and the expected return on scheme assets, and the impact of changes in the valuation basis, expressed as a percentage of the scheme assets are 9.00% (2002:17.35%) and 1.00% (2002:nil). The experience losses arising on scheme liabilities, expressed as a percentage of those liabilities is 1.00% (2002:1.86%).

8 Pensions (continued)

	2003 £000		2002 £000	
Service costs				
Current service costs	**4,269**		*4,108*	
Past service costs	**1,135**		-	
	5,404		*4,108*	
Other finance costs				
Expected return on scheme assets	**5,263**		*6,409*	
Interest cost on scheme liabilities	**(4,586)**		*(4,128)*	
Net finance income	**677**		*2,281*	
Actuarial gains and losses				
Difference between actual and expected return on scheme assets	**9,545**	**9.00%**	*(14,597)*	*17.35%*
Impact of changes in the valuation basis	**(5,258)**	**1.00%**	-	
Experience losses arising on scheme liabilities	**(933)**	**1.00%**	*(1,497)*	*1.86%*
Total actuarial gains and losses	**3,354**		*(16,094)*	
Movement in surplus during the year				
Surplus 1 January	**3,763**		*18,332*	
Current service cost	**(4,269)**		*(4,108)*	
Contributions	**4,379**		*3,352*	
Past service cost	**(1,135)**		-	
Other finance income	**677**		*2,281*	
Actuarial gains/(losses)	**3,354**		*(16,094)*	
Surplus 31 December	**6,769**		*3,763*	

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

	Value 2003 £000	Expected rate of return	*Value at 2002 £000*	*Expected rate of return*	*Value at 2001 £000*	*Expected rate of return*
Equities	**57,596**	**8.00%**	*45,110*	*8.00%*	*59,364*	*8.00%*
Bonds	**28,274**	**5.50%**	*23,235*	*5.50%*	*18,898*	*5.50%*
Other	**15,575**	**4.00%**	*15,780*	*4.00%*	*12,082*	*4.50%*
Total market value of assets	**101,445**		*84,125*		*90,344*	
Present value of scheme liabilities	**94,676**		*80,362*		*71,802*	
Net surplus in the schemes	**6,769**		*3,763*		*18,542*	
Deferred tax liability	**2,031**		*1,129*		*5,563*	
Net pension asset	**4,738**		*2,634*		*12,979*	
Group net assets excluding net pension asset	**158,476**		*131,856*		*145,330*	
Group net assets including net pension asset	**163,214**		*134,490*		*158,309*	
Profit and loss account excluding net pension asset	**85,847**		*59,227*		71701	
Net pension asset	**4,738**		*2,634*		*12,979*	
Profit and loss account including net pension asset	**90,585**		*61,861*		*84,680*	

Notes to the Accounts

9 Taxation

	Long term business technical account		Non-technical account	
	2003	*2002*	**2003**	*2002*
	£000	*£000*	**£000**	*£000*
UK corporation tax for the current financial year	-	*2,041*	**4,367**	*1,580*
Overseas tax	-	*52*	**2,403**	*690*
Tax attributable to shareholders' long term business profits	-	-	-	*517*
	-	*2,093*	**6,770**	*2,787*
Deferred tax	**1,943**	*(4,577)*	**5,561**	*(4,388)*
	1,943	*(2,484)*	**12,331**	*(1,601)*

UK corporation tax in the long term business technical account has been calculated at rates between 20% and 30% *(2002:20% and 30%)* in accordance with the rates applicable to long term insurance business.

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

	Non-technical account	
	2003	*2002*
	£000	*£000*
Profit/(loss) on ordinary activities before tax	**43,518**	*(6,155)*
Tax on profit/(loss) on ordinary activities at standard rate	**13,055**	*(1,847)*
Factors affecting charge for the year:		
Capital allowances for the period in excess of depreciation	**(223)**	*(574)*
Unrealised investment movements and other timing differences	**(6,561)**	*4,075*
Dividends received	**(907)**	*(1,236)*
Expenses not deductible for tax purposes	**426**	*746*
Tax paid at non-standard rates	**(156)**	*423*
Tax relief on gift aid	**1,275**	*1,200*
Adjustments to tax charge in respect of prior periods	**(139)**	-
Total actual amount of current tax	**6,770**	*2,787*

10 Dividends

	2003	*2002*
	£000	*£000*
Equity		
Ordinary shares:		
Interim paid 1.460p (*2002: nil*) per share	**410**	-
Non-equity		
First Cumulative Preference shares	**7**	*7*
Redeemable Second Cumulative Preference shares	**300**	*300*
Redeemable Third Non-Cumulative Preference shares	**1,520**	*1,520*
Non-Cumulative Irredeemable Preference shares	**2,156**	*2,156*
	3,983	*3,983*
Total dividends	**4,393**	*3,983*

The dividend on the First Cumulative Preference shares has been accrued. All other preference dividends were paid during the financial year.

Notes to the Accounts

11 Charitable grants

Charitable grants of £4,250,000 *(2002:£4,000,000)* gross and £2,975,000 *(2002:£2,800,000)* net of tax relief consist of gift aid payments to the ultimate parent company, Allchurches Trust Limited.

12 Goodwill

	2003	*2002*
	£000	*£000*
Carrying value 1 January	**2,507**	*2,962*
Additions	**-**	*6*
Amortisation	**(418)**	*(461)*
Carrying value 31 December	**2,089**	*2,507*

Goodwill arose on the acqusition of a subsidiary undertaking.

13 Investments

Group	2003 General business £000	2003 Long term business £000	2003 Total £000	*2002 General business £000*	*2002 Long term business £000*	*2002 Total £000*
Current value						
Freehold land and buildings						
- occupied by the group	2,468	392	2,860	*2,122*	*392*	*2,514*
- other	16,411	-	16,411	*16,507*	-	*16,507*
	18,879	392	19,271	*18,629*	*392*	*19,021*
Investments in group undertakings						
- preference shares	250	-	250	*250*	-	*250*
Other financial investments						
Equity shares and other variable yield securities and units in unit trusts:						
- listed	117,810	100,711	218,521	*96,723*	*89,206*	*185,929*
- unlisted	16,758	297	17,055	*15,568*	*178*	*15,746*
	134,568	101,008	235,576	*112,291*	*89,384*	*201,675*
Debt and other fixed income securities:						
- listed	229,387	87,437	316,824	*163,160*	*71,705*	*234,865*
- unlisted	1,343	3,262	4,605	*216*	*81*	*297*
Loans secured by mortgages	567	35,517	36,084	*830*	*42,189*	*43,019*
Other loans	6,671	418	7,089	*5,872*	*312*	*6,184*
	237,968	126,634	364,602	*170,078*	*114,287*	*284,365*
Total	372,536	227,642	600,178	*282,369*	*203,671*	*486,040*
Cost						
Freehold land and buildings	17,623	400	18,023	*18,927*	*400*	*19,327*
Investments in group undertakings	250	-	250	*250*	-	*250*
Other financial investments	320,011	159,887	479,898	*247,386*	*149,801*	*397,187*
	337,884	160,287	498,171	*266,563*	*150,201*	*416,764*
Debt and other fixed income securities valued at amortised cost						
Cost	221,623	44,886	266,509	*153,097*	*63,139*	*216,236*
Cumulative amortisation	(2,034)	(879)	(2,913)	*(315)*	*(1,392)*	*(1,707)*
Current value	219,589	44,007	263,596	*152,782*	*61,747*	*214,529*
Unamortised maturity value	17,043	(1,156)	15,887	*(4,631)*	*(3,521)*	*(8,152)*
Maturity value	236,632	42,851	279,483	*148,151*	*58,226*	*206,377*
Market value	216,316	47,458	263,774	*159,447*	*67,266*	*226,713*

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

13 Investments (continued)

Parent	2003 General business £000	2003 Long term business £000	2003 Total £000	*2002 General business £000*	*2002 Long term business £000*	*2002 Total £000*
Current value						
Freehold land and buildings						
- occupied by the group	2,298	-	2,298	*1,880*	*392*	*2,272*
- other	16,411	-	16,411	*16,507*	-	*16,507*
	18,709	-	18,709	*18,387*	*392*	*18,779*
Other financial investments						
Equity shares and other variable yield securities and units in unit trusts:						
- listed	111,041	-	111,041	*90,365*	*87,118*	*177,483*
- unlisted	16,758	-	16,758	*15,568*	*178*	*15,746*
	127,799	-	127,799	*105,933*	*87,296*	*193,229*
Debt and other fixed income securities:						
- listed	160,088	-	160,088	*119,814*	*55,433*	*175,247*
- unlisted	753	-	753	*216*	*81*	*297*
Loans secured by mortgages	567	-	567	*830*	*6,085*	*6,915*
Other loans	3,629	-	3,629	*2,933*	*285*	*3,218*
	165,037	-	165,037	*123,793*	*61,884*	*185,677*
Total	292,836	-	292,836	*229,726*	*149,180*	*378,906*
Cost						
Freehold land and buildings	17,519	-	17,519	*18,722*	*400*	*19,122*
Investments in group undertakings	23,420	-	23,420	*23,420*	-	*23,420*
Other financial investments	241,569	-	241,569	*195,003*	*95,846*	*290,849*
	282,508	-	282,508	*237,145*	*96,246*	*333,391*
Debt and other fixed income securities valued at amortised cost						
Cost	157,507	-	157,507	*115,164*	*50,130*	*165,294*
Cumulative amortisation	(1,615)	-	(1,615)	*(136)*	*(1,265)*	*(1,401)*
Current value	155,892	-	155,892	*115,028*	*48,865*	*163,893*
Unamortised maturity value	18,570	-	18,570	*(4,067)*	*(3,490)*	*(7,557)*
Maturity value	174,462	-	174,462	*110,961*	*45,375*	*156,336*
Market value	152,514	-	152,514	*121,086*	*52,875*	*173,961*

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

13 Investments (continued)

Group undertakings	2003 Shares £000	2003 Loans £000	2003 Total £000	2002 Shares £000	2002 Loans £000	2002 Total £000
Cost						
At 1 January	23,420	1,549	24,969	23,420	500	23,920
Exchange movements	-	214	214	-	-	-
Additions	-	-	-	-	1,049	1,049
At 31 December	23,420	1,763	25,183	23,420	1,549	24,969
Provisions						
At 1 January	25,288	-	25,288	24,492	-	24,492
Additions	4,632	-	4,632	796	-	796
At 31 December	29,920	-	29,920	25,288	-	25,288
Net book value						
At 31 December	53,340	1,763	55,103	48,708	1,549	50,257
At 1 January	48,708	1,549	50,257	47,912	500	48,412

All of the investments in the table above are unlisted.

Loans to subsidiary undertakings are included within amounts due to group undertakings in the balance sheet.

14 Assets held to cover linked liabilities

	2003 Current value £000	2003 Historical cost £000	2002 Current value £000	2002 Historical cost £000
Group	40,903	35,723	30,959	31,198
Parent	-	-	5,664	5,815

15 Debtors arising out of insurance operations

(a) Debtors arising out of direct insurance operations

	2003 General business £000	2003 Long term business £000	2003 Total £000	2002 General business £000	2002 Long term business £000	2002 Total £000
Group						
Policyholders	22,433	1,262	23,695	18,299	1,465	19,764
Intermediaries	39,631	-	39,631	31,956	-	31,956
	62,064	1,262	63,326	50,255	1,465	51,720
Parent						
Policyholders	21,063	-	21,063	17,625	323	17,948
Intermediaries	25,283	-	25,283	21,709	-	21,709
	46,346	-	46,346	39,334	323	39,657

(b) Debtors and creditors arising out of reinsurance operations

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

Notes to the Accounts

16 Tangible assets

	Group £000	Parent £000
Cost:		
At 1 January	29,710	27,310
Additions	2,501	1,805
Exchange movements	300	41
Disposals	(7,963)	(7,459)
Transfer to subsidiary undertaking	-	(2,504)
At 31 December	24,548	19,193
Depreciation:		
At 1 January	18,352	17,024
Provided in the year	4,126	3,590
Exchange movements	132	17
Disposals	(7,486)	(7,166)
Transfer to subsidiary undertaking	-	(1,479)
At 31 December	15,124	11,986
Net book value at 31 December		
General business	8,605	7,207
Long term business	819	-
	9,424	7,207
Net book value at 1 January		
General business	*10,199*	*9,127*
Long term business	*1,159*	*1,159*
	11,358	*10,286*

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

Notes to the Accounts

17 Share capital

Authorised	**Issued, allotted and fully paid**	
	2003	*2002*
	£000	*£000*
Equity		
Ordinary share capital:		
30,000,000 shares of 50p each	**14,027**	*14,027*
Non Equity		
Preference share capital:		
250,000 2.8% First Cumulative Preference shares of £1 each	**250**	*250*
3,000,000 10% Redeemable Second Cumulative Preference shares of £1 each	**3,000**	*3,000*
16,000,000 9.5% Redeemable Third Non-Cumulative Preference shares of £1 each	**16,000**	*16,000*
25,000,000 8.625% Non-Cumulative Irredeemable Preference shares of £1 each	**25,000**	*25,000*
25,000,000 Sterling Preference shares of £1 each	**-**	*-*
	58,277	*58,277*

The company 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
2004 to 2007	2 ½ per cent
2008 to 2012	Nil

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

The company may redeem the issued 16,000,000 9.5% Redeemable Third Non-Cumulative Preference shares at par on or at any time after 30 June 2012. Final redemption date is 30 June 2018.

On a winding up, the assets of the company remaining after payment of its liabilities are to be applied to holders of the First, then the Second, then the Irredeemable, then the Third Preference shares in repaying the nominal capital sum paid up on the shares and (except for the Third Preference shareholders) an amount equal to all arrears of accrued and unpaid dividends up to the date of the commencement of the winding up.

Holders of the First, Third and Irredeemable Preference shares are not entitled to receive notice of, or to attend or vote at, any general meeting of the company unless:

- in the case of the First Preference shares, their preferential dividend is at least twelve months in arrears;
- in the case of the Third Preference shares, the fixed dividend payable on the immediately preceding payment date is not paid, but voting rights then cease upon the date when the company pays any subsequent fixed dividend; and
- in the case of the Irredeemable Preference shares, where at the time of the notice convening such meeting, the dividend on such shares which is most recently payable (as defined in the listing particulars) on such shares shall not have been paid in full, or where a resolution is proposed varying any of the rights of such shares or for the winding up of the company.

Holders of the Second Preference shares are entitled to receive notice of, but are not entitled to attend or vote at, any general meeting of the company unless:

- in the case of the Second Preference shares, either their preferential dividend is six months in arrears or on a resolution proposed for reducing the capital for the company (other than by redeeming the Second Preference shares) or for the winding up the company.

18 Reserves

	Share premium account £000	Revaluation and other reserves £000	Long term insurance business reserve £000	General reserve £000	Profit and loss account £000	Total £000
Group						
Balance 1 January	352	-	4,000	10,000	59,227	73,579
Currency translation differences	-	-	-	-	2,801	2,801
Transfer from profit and loss account	-	-	-	-	23,819	23,819
Balance 31 December	352	-	4,000	10,000	85,847	100,199
Parent						
Balance 1 January	352	29,541	-	10,000	33,686	73,579
Revaluation of group undertakings	-	4,632	-	-		4,632
Currency translation differences	-	-	-	-	1,357	1,357
Transfer from profit and loss account	-	-	-	-	20,631	20,631
Balance 31 December	352	34,173	-	10,000	55,674	100,199

19 Reconciliation of movements in group shareholders' funds

	2003 £000	*2002 £000*
Profit/(loss) for the financial year	31,187	*(4,554)*
Revaluation of long term business	-	*(1,000)*
Currency translation differences	2,801	*(1,137)*
	33,988	*(6,691)*
Dividends	(4,393)	*(3,983)*
Charitable grants net of tax relief	(2,975)	*(2,800)*
Net movement in shareholders' funds	26,620	*(13,474)*
Opening shareholders' funds	131,856	*145,330*
Closing shareholders' funds	158,476	*131,856*

Shareholders' funds comprise £114,226,000 *(2002:£87,606,000)* equity interests and £44,250,000 *(2002:£44,250,000)* non-equity interests.

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

		2003	2002
		%	%
Assurances:			
Life		**2.5-3.0**	*2.5-3.0*
Pensions		**2.5-3.0**	*2.5-3.0*
Annuities:			
With profit	- deferred	**1.5**	*1.5*
Without profit	- deferred	**3.0-4.0**	*3.0-4.0*
	- vested	**4.0-4.5**	*4.0-4.5*

(b) Mortality tables

Assurances:		**AM92**	*AM92*
Annuities:			
Deferred annuities	- pensions	**PMA92/PFA92(C=2030)**	*PMA92/PFA92(C=2010)*
	- school fees	**no mortality**	*no mortality*
Vested annuities	- pensions	**PMA92/PFA92(C=2030)**	*PMA92/PFA92(C=2010)*
	- other	**IMA92/IFA92(C=2030)**	*IMA92/IFA92(C=2010)*

The IMA/IFA 92 C=2030 table is used for all other vested annuities. The only exception to this is the homeowners' income plan, which uses table IMA/IFA 92 C=2010, due to the age profile.

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

21 Claims outstanding

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

Chain Ladder methods extrapolate paid and incurred claim amounts and the number of claims, based on the development of previous accident or underwriting years. This method assumes that previous patterns are a reasonable guide to future developments. Where this assumption is felt to be unreasonable adjustments are made or other methods such as Bornhuetter Ferguson are used. This method enables judgement to be made of the expected impact on 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 prudence is assessed primarily by the Thomas Mack actuarial method, based on at least the 75th percentile confidence level for each portfolio. For smaller portfolios where the Mack method cannot be applied, provisions have been calculated at a level intended to be equally prudent. Where the standard methods cannot allow for changing circumstances, such as latent claims, appropriate further provisions are added. This degree of prudence generally results in a favourable release of provisions, in the current financial year, arising from the settlement of claims relating to previous financial years. The favourable release in 2003 amounted to £6.6 million *(2002:£17.9 million)*.

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

22 Equalisation provision

The equalisation provision, established in accordance with the Interim Prudential Sourcebook for Insurers, is required by Schedule 9A to the Companies Act 1985 to be included within technical provisions, notwithstanding that it does not represent a liability at the balance sheet date. It is in addition to the provisions required to meet the anticipated ultimate cost of settling outstanding claims at the balance sheet date. The provision has reduced shareholders' funds by £14,708,000 (2002:£9,938,000) and decreased both the balance on the general business technical account and the profit before taxation for the year by £4,770,000 (2002:£3,782,000).

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 and restructuring costs.

	2003			*2002*
	Deferred tax	**Restructuring costs**	**Total**	*Deferred tax*
	£000	**£000**	**£000**	*£000*
Group				
Balance 1 January	10,004	-	10,004	*18,969*
Increase/(decrease) in provision	7,504	2,200	9,704	*(8,965)*
Balance at 31 December	17,508	2,200	19,708	*10,004*
Parent				
Balance 1 January	9,896	-	9,896	*18,027*
Increase/(decrease) in provision	923	2,200	3,123	*(8,131)*
Balance at 31 December	10,819	2,200	13,019	*9,896*

Restructuring costs

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

Deferred tax

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

Unrealised investment gains	31,861	*15,279*
Capital allowances in excess of depreciation	(1,442)	*(1,414)*
Other timing differences	(1,275)	*(1,715)*
Undiscounted provision for deferred tax	29,144	*12,150*
Discount	11,636	*2,146*
Discounted provision for deferred tax	17,508	*10,004*

In accordance with FRS19 the present value of deferred tax has been recognised in respect of all timing differences which have originated but not reversed by the balance sheet date. A deferred tax asset of £2,700,000 *(2002:£1,677,000)* in respect of tax losses in the life fund has not been recognised in these accounts.

24 Other creditors including taxation and social security

	2003 £000	2002 £000
Group		
Dividends	7	7
Other creditors	14,227	9,962
Taxation	1,795	1,886
	16,029	11,855
Parent		
Dividends	7	7
Other creditors	10,326	8,789
Taxation	-	1,000
	10,333	9,796

	2003 £000	2002 £000
Included in other creditors are obligations under lease purchase contracts due:		
In 1 year or less	525	599
Between 2 and 5 years	998	1,338
Over 5 years	-	12
	1,523	1,949

The group is required under the Financial Services Compensation Scheme to contribute towards any levies raised on UK general and life insurance business. The amount of the levy may vary from nil to a maximum levy of 0.8% of UK written premium net of commission. At the year end the group has provided at the maximum rate in respect of this levy.

25 Notes to the cash flow statement

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

	2003 £000	2002 £000
Profit/(loss) on ordinary activities before tax	43,518	(6,155)
Depreciation charges	3,751	3,037
Amortisation of fixed interest securities	1,447	288
Amortisation of goodwill	418	461
Unrealised (gains)/losses on investments	(21,005)	32,455
Increase in net general insurance technical provisions	37,449	23,991
Loss/(profit) relating to long term business	3,851	(1,724)
Cash paid from long term business	-	(5,000)
Interest payable	103	111
Realised investment losses/(gains)	1,022	(4,922)
Loss on sales of tangible fixed assets	32	613
Movement in other debtors and creditors	3,326	5,767
Exchange and other non-cash movements	(5,871)	1,214
Net cash inflow from operating activities	68,041	50,136

25 Notes to the cash flow statement (continued)

(b) Movements in cash and portfolio investments

	At 1 January 2003 £000	Cash flow £000	Changes in long term business £000	Exchange and other non-cash movements £000	At 31 December 2003 £000
Cash at bank and in hand	125,959	(11,850)	(26,456)	991	88,644
Shares and other variable yield securities	201,675	7,181	11,624	15,096	235,576
Fixed income securities	284,615	58,273	12,348	9,616	364,852
Land and buildings	19,021	(1,164)	-	1,414	19,271
Assets held to cover linked liabilities	30,959	-	9,944	-	40,903
	662,229	52,440	7,460	27,117	749,246

26 Operating leases

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

	2003		*2002*	
	Premises £000	Equipment £000	*Premises £000*	*Equipment £000*
Commitments				
Expiring:				
Within 1 year	387	545	*382*	*146*
Between 2 and 5 years	882	171	*1,508*	*252*
Over 5 years	1,197	-	*907*	-
Total	2,466	716	*2,797*	*398*
Payments included in operating expenses	2,433	494	*2,274*	*845*

27 Capital commitments

At 31 December 2003 there were no outstanding contracts for capital expenditure (*2002:nil*).

28 Restructure of life business

On 1 August 2003, following High Court approval on 28 July 2003, the entire long term business of Ecclesiastical Insurance Office plc was transferred to its subsidiary undertaking, Ecclesiastical Life Limited, formerly known as Allchurches Life Limited.

On 1 August 2003 Ecclesiastical Life Limited also acquired the entire share capital of Allchurches Investment Management Services Limited from Ecclesiastical Group Asset Management Limited, a subsidiary of the group's immediate parent undertaking, Ecclesiastical Insurance Group plc. On the same date Ecclesiastical Life Limited acquired Hinton & Wild (Home Plans) Limited from Ecclesiastical Insurance Group plc.

All companies are incorporated in Great Britain.

The acquisitions were accounted for by the acquisition method. There were no material differences between the fair values and the net book values of the assets and liabilities acquired.

The assets and liabilities acquired were as follows:

	£000
Debtors	**94**
Cash at bank	**1,445**
Creditors	**(231)**
Net assets acquired	**1,308**
Total consideration comprised: Cash	**1,308**

Analysis of net cash inflow in respect of the purchases:

Cash at bank and in hand acquired	**1,445**
Total consideration	**(1,308)**
Net cash inflow	**137**

29 Parent and subsidiary undertakings

Ultimate parent company and controlling party

The company is a wholly owned subsidiary of Ecclesiastical Insurance Group plc. Its ultimate parent and controlling company is Allchurches Trust Limited. Both companies are incorporated and operate in Great Britain and copies of their accounts are available from the registered office as shown on page 12. The parent companies of the smallest and largest groups for which group accounts are drawn up are Ecclesiastical Insurance Office plc and Allchurches Trust Limited. All the subsidiaries listed are included within the consolidated financial statements. Voting rights are in line with the holdings of ordinary shares.

Subsidiary undertakings	Share capital	Holding of shares by: Parent	Subsidiary
Incorporated and operating in Great Britain, engaged in investment, insurance and financial services or other insurance related business:			
Allchurches Investment Management Services Limited	Ordinary shares		100%
Ansvar Insurance Company Limited	Ordinary shares	100%	
Ansvar Pensions Limited	Ordinary shares		100%
Ecclesiastical Life Limited	Ordinary shares	100%	
Ecumenical Insurance Company Limited	Ordinary shares	100%	
Hinton & Wild (Home Plans) Limited	Ordinary shares		100%
Incorporated and operating in Australia, engaged in insurance business:			
EIG - Ansvar Limited	Ordinary shares	100%	
Incorporated and operating in New Zealand, engaged in insurance business:			
EIG - Ansvar Insurance (New Zealand) Limited	Ordinary shares		100%
EIG - Ansvar Life Limited	Ordinary shares		100%

In addition, there are eight other wholly owned subsidiary undertakings whose assets and contribution to group income are not significant. The company 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 £606,000 (*2002:£670,000*) school fee annuities were accounted for by the group to Beaufort House Trust Limited, a company under common control. Of this £145,000 (*2002:£161,000*) was prepaid at the balance sheet date. This has been accounted for in the long term business technical account.

Regional Underwriting Centres - United Kingdom

Birmingham	*Branch Manager:*	Mrs C. G. Taylor MBA, ACII
	Office:	Berwick House, 35 Livery Street, Birmingham B3 2PB
	Tel:	0121 200 3200
Cambridge	*Branch Manager:*	J. A. Dowling ACII
	Office:	Abbeygate House, 164-167 East Road, Cambridge CB1 1DB
	Tel:	01223 460611
City	*City Manager:*	G. J. Merriman FCII
	Office:	19-21 Billiter Street, London EC3M 2RY
	Tel:	020 7528 7363
Eastbourne	*Branch Manager:*	A. M. M. Fraser ACII
	Office:	31 St Leonards Road, Eastbourne, Sussex BN21 3UR
	Tel:	01323 438988
Gloucester	*Branch Manager:*	K. Hall ACII
	Office:	Fitzalan House, Park Road, Gloucester GL1 1LZ
	Tel:	01452 422226
Manchester	*Branch Manager:*	P. T. Lee
	Office:	Lincoln House, 1 Brazennose Street, Manchester M2 5FJ
	Tel:	0161 832 2616
Newcastle	*Branch Manager:*	Mrs A. Hudson
	Office:	1 Hood Street, Newcastle Upon Tyne, Newcastle NE1 6JQ
	Tel:	0191 261 0336

Branches and Agencies - International

Canada	*Manager for Canada:* *Chief Office:*	Mrs S. J. Whyte 2300 Yonge Street, Toronto, Ontario M4P 1E4
	Manager: *Eastern Region*	H. Meek 1969 Upper Water Street, Halifax, Nova Scotia B3J 3R7
	Manager: *Western Region*	Vacancy 545 Clyde Avenue, West Vancouver, British Columbia V7T 1C5
	Manager: *Central Region*	R. Olsen 2300 Yonge Street, Toronto, Ontario M4P 1E4
Republic of Ireland	*Manager:* *Office:*	D. E. Campbell 65 Fitzwilliam Square, Dublin 2
Malta	*Underwriting Agents:*	SMS Insurance Agency Limited, Villa Venezia, Ta' Xbiex Terrace, Ta' Xbiex MSD11
Greece	*Underwriting Agents:*	G. A. P. Insurance Representatives (Hellas) S.A., 5th Floor, 224 Syggrou Avenue, 176 72 Kallithea, Athens
Cyprus	*Principal Agents:*	G. A. P. Vassilopoulos Insurance Agencies Limited, 20 Strovolos Avenue, PO Box 23897, CY-1687 Nicosia
	Underwriting Agents:	J. Makriyiannis & Son (Insurance Agencies) Limited, Schoolteachers' Building, 18 Makarios III Avenue, PO Box 1493, CY-1509 Nicosia

Insurance Subsidiaries - United Kingdom

Subsidiaries:

Ansvar Insurance Company Limited	*Director and General Manager:*	T. P. H. Godfrey ACII
	Office:	Ansvar House, St Leonard's Road, Eastbourne BN21 3UR
	Tel:	01323 737541
Ecclesiastical Underwriting Management Limited	*Director and Underwriter:*	K. P. Cannon FCII
	Office:	Suite 10, 2nd Floor, London Underwriting Centre, 3 Minster Court, Mincing Lane, London EC3R 7DD
	Tel:	020 7283 0666

Insurance Subsidiaries - International

EIG-Ansvar Australia	*Managing Director:* *Head Office:*	John Peberdy ANZIIF (Snr Assoc) PO Box 1655N, Level 18, 303 Collins Street, Melbourne 3000
	Branch Manager: *Victoria:*	Cam Bradford ANZIIF (Assoc) PO Box 1655N, Level 13, 303 Collins Street, Melbourne 3000
	Branch Manager: *New South Wales:*	Allan Smith ANZIIF (Snr Assoc) PO Box 2403, Level 1, 18 Smith Street, North Parramatta 1750
	Branch Manager: *Queensland:*	Darryl Witherington ANZIIF (Snr Assoc) PO Box 747, Level 15, Indus House, 127 Creek Street, Brisbane 4000
	Branch Manager: *South Australia:*	John Jones ANZIIF (Snr Assoc) PO Box 338, 202 Glen Osmond Road, Fullarton 5063
	Branch Manager: *Western Australia:*	Patrick Kelly ANZIIF (Snr Assoc) PO Box 840, Level 3 679 Murray Street West Perth 6872
EIG-Ansvar New Zealand	*General Manager:* *Head Office:*	Paul Munton ANZIIF (Fellow) MBA PO Box 7042, Wellesley Street, Auckland 1036

Financial Summary

	2003	2002	2001*	2000*	1999*
			Restated	Restated	
	£000	£000	£000	£000	£000
Premium income					
Gross premiums written					
General business	**353,657**	313,685	281,649	251,625	235,647
Long term business	**19,463**	19,925	22,498	20,089	19,967
Total	**373,120**	333,610	304,147	271,714	255,614
Net premiums written					
General business	**220,926**	204,222	195,876	178,394	166,929
Long term business	**19,012**	19,403	22,243	19,748	19,666
Total	**239,938**	223,625	218,119	198,142	186,595
Summary of results					
Profit/(loss) on ordinary activities before tax	**43,518**	(6,155)	(18,456)	(2,604)	45,268
Profit/(loss) on ordinary activities after tax	**31,187**	(4,554)	(16,548)	(2,948)	32,194
Minority interests	-	-	-	-	10,461
	31,187	(4,554)	(16,548)	(2,948)	21,733
Dividends	**4,393**	3,983	4,393	4,393	4,393
Charitable grants net of tax relief	**2,975**	2,800	2,800	2,800	2,790
	7,368	6,783	7,193	7,193	7,183
Retained profit/(loss) for the financial year	**23,819**	(11,337)	(23,741)	(10,141)	14,550
Capital and reserves					
Share capital	**58,277**	58,277	58,277	58,277	58,277
Share premium account	**352**	352	352	352	352
Long term insurance business reserve	**4,000**	4,000	5,000	6,000	6,000
General reserve	**10,000**	10,000	10,000	10,000	10,000
Retained profits	**85,847**	59,227	71,701	96,292	106,813
	158,476	131,856	145,330	170,921	181,442

* Capital and reserves for 2001 and 2000 have been restated to comply with the change in accounting policy resulting from the adoption of FRS 19. The figures for 1999 have not been restated as the effect of the change is not considered to be material.