

ECCLESIASTICAL

ECCLESIASTICAL INSURANCE OFFICE plc
2006 ANNUAL REPORT

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Ecclesiastical Insurance Office plc

2006 Annual Report

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Ecclesiastical Insurance Office plc

Group Financial Highlights

	2006 £million	2005 £million
Gross premiums written		
General business	358.3	346.6
Long term business	45.0	15.1
Total	403.3	361.7
 Profit before tax	 77.1	 101.1
 Profit attributable to equity holders	 54.6	 72.0
 Total shareholders' equity	 345.0	 301.5
 Total assets	 1,460.4	 1,306.8

Ecclesiastical Insurance Office plc

Chairman's Statement

2006 continued the recent succession of profitable years, further strengthening Ecclesiastical's financial position. Profit before tax was £77.1 million and shareholders' funds rose to a new record level of £345.0 million.

Another strong underwriting result from general insurance accompanied by a further increase in sales in financial services and a good return from our investment portfolios meant that the pattern of our results was similar to the previous year. The external environment was, however, less favourable with increased competitive pressure on rating levels in general insurance. In investment markets, rising yields produced capital losses on fixed interest stocks which are accounted for at current market value under IFRS, and capital returns on equities were more modest than the high level of gains in 2005. These factors prevented us from matching the record result in 2005 but the financial performance achieved was nonetheless a creditable outcome in a busy year of change.

Group financial highlights for the year are shown on page 2. Of note is the increase of 12% in total gross premiums written, to which our financial services business has made a significant contribution, with an increase of £30.0 million in premiums for long term business. Once again, almost all parts of our general insurance business have produced underwriting profits and the Group Chief Executive comments on these achievements in his Review of Group Operations.

Before leaving the financial aspects of last year's performance, I want to comment on the growth in shareholders' equity and the change we have introduced to the policy of distributing grants to our ultimate parent, Allchurches Trust. In previous years we paid the final grant in December before the results for the year were known. This process inevitably introduced an element of uncertainty which we have sought to eliminate in 2006 by deferring the payment of the final element of the grant until there was greater clarity around Ecclesiastical's results. I am pleased to report that, following an interim grant payment of £2.2 million last September, a further £2.8 million in respect of 2006 was paid to Allchurches Trust in March 2007. These two amounts together represent an increase of £300,000 or 6.4% over their equivalents for 2005.

Regular readers of our accounts may remember that 2005 produced an exceptional financial result and the group was able to supplement the annual grant with a special payment of £650,000 and a capital endowment of £5.0 million in respect of that year. Moreover, given the strength of Ecclesiastical's capital position and because the figures for 2006 have also been so good, the Board has agreed a special grant of £500,000 and a further capital endowment of £5.0 million relating to 2006. This takes the total grants payable to Allchurches Trust in respect of 2006 to £10.5 million.

In other respects, our policy of making grants to Allchurches Trust is unchanged. We believe it is right to ensure grants are made at a sustainable level over a normal underwriting cycle. When Ecclesiastical's results are strong we make sure we are prudent and can then maintain stability during periods of relatively weaker performance.

I have commented in some detail on how we are continuing to fulfil the profit dimension of Ecclesiastical's mission to provide profit and service for the benefit of church and community. Of equal importance is our commitment to service through the use of our specialist expertise, whether providing protection, financial advice or advice on risk management. This commitment is the cornerstone that differentiates the Group for its customers around the world in what is an increasingly commoditised market place.

In October, we relaunched Ecclesiastical's brand in the UK to give renewed emphasis to the values that have always distinguished us, and introduced a new visual identity. This re-branding is in part about the widening of our appeal to customers who can relate to our values, and also in part about the modernisation of our processes to make it easier for people to do business with us. We plan to extend the launch of our new brand to our overseas branches in 2007, and our principal subsidiary companies will be taking similar action. Launching the new brand is part of a continuous programme of change that will reinforce the qualities that differentiate the Group and allow it to prosper in the ever changing world.

Ecclesiastical Insurance Office plc

Chairman's Statement

The good results of recent years have enabled us to create a solid financial base which together with a well considered strategic platform represents a significant investment in the future of Ecclesiastical. We have also entered into an arrangement to support the work of the Children's Society, a charity with a historical link to the Church of England and founded on Christian vision. In addition, we have extended our existing give-as-you-earn scheme to match contributions made by our staff. In these ways we are demonstrating our commitment to a range of communities in support of the Church of England and its partner churches.

Last year I referred to the need for insurers to maintain adequate levels of capital and pricing if they are to be able successfully to accept risks that cannot be borne individually by their customers without detriment to the effective functioning of the economy at large. While our customers in 2006 were spared the cost of any severe weather events causing widespread damage, the impact of windstorm Kyrill which swept across the UK and several countries in mainland Europe in January 2007 is a timely illustration of the extremes that are likely to confront us all at this time of changing climate patterns.

Against this background, we hope that the UK Government will not allow the pressures on public spending to weaken its resolve to invest adequately in the improvement of flood defences as previously agreed with the industry. While insurance is there to meet the financial cost of damage caused by flooding, effective preventative measures are the only way of relieving the emotional distress caused by avoidable risk.

The regulatory framework continues to evolve both in the UK and in the principal overseas markets in which we operate. We strive to build a positive relationship with all our regulators and believe that this has been achieved. Many new regulatory changes have been absorbed by our management and compliance teams but we are conscious that there are more to come especially in the area of capital adequacy standards. Having invested significant time and effort in the assessment of our capital requirements in accordance with the FSA's risk-based regime, we look forward to a consistent approach that will help us to integrate the management of our capital and the development of our business in an effective way. We hope that the planned introduction of a harmonised approach across the EU through Solvency II will not undermine the consistency which has begun to be achieved and which we value.

After a period of careful planning, we completed the process of selecting a successor to Graham Doswell who stepped down as Group Chief Executive on 31 December, and who retired from the Group at the end of February after more than 22 years with Ecclesiastical and over 9 as its chief executive. We are greatly indebted to him for all that has been achieved over these last years under his excellent leadership, exercising as he has, his skills and knowledge of the market and our business. He led his team to a record year in 2005, followed by this latest highly successful year. He has laid the foundations for the continuation of this success and the good health of the company. The Board extends its deep and grateful thanks to him for his commitment, service and leadership.

Michael Tripp was appointed to the Board from 1 January and will be responsible for leading the Group on the next stage of its journey. We are pleased that this important phase of our senior succession plan has been implemented smoothly and we welcome Michael to the Group. We are fortunate to have such a loyal team of people and I know they will strive to continue our progress under our new Group Chief Executive. We believe that the strategic initiatives taken in recent years allied with the skill and energy of our people will allow the group to develop well in the years ahead.

There were other changes affecting our Board during the year. We were deeply saddened by the untimely death of Peter Clark in June and express our condolences to his wife Lynda and to his family. Peter made an enormous contribution in the brief period he served as a director and we miss him greatly. We have made a donation to the fund set up in his memory to support families and children in Nairobi affected by HIV/AIDS and to promote financial assistance to Africans studying to become qualified Actuaries, causes in which he passionately believed.

At the end of June we said farewell to Bill Yates who retired as Deputy Chairman after more than 20 years on our various Boards. Bill made a great contribution over the years, serving with distinction as Chairman of the Finance and Investment Committee. We were delighted that his services to charity were recognised in the New Year's Honours List with the award of an MBE. Bill has been succeeded as Deputy Chairman by Dieter Losse.

As I hope this Statement and the Review of Group Operations show, the Group accomplished much in 2006, managing major changes that are important to our future success. That they were accompanied by another fine set of financial results is a great tribute to the efforts made by all our staff and I thank them warmly for what they have achieved. Their desire to serve and go that extra mile in helping our customers coupled with some exceptional expertise gives me and my fellow directors great hope for the future.

Nick Sealy
Chairman

Ecclesiastical Insurance Office plc

Review of Group Operations

Continued progress was made on a number of fronts in 2006. Financial performance was strong for the third year in a row, the Ecclesiastical brand was relaunched with a renewed commitment to the values that distinguish and reinforce our special place in the world of insurance, and a number of new initiatives were successfully completed to widen the range of services we provide to our customers.

Although lower than the exceptional result of £101.1 million in 2005, we are reporting a profit before tax of £77.1 million. This is our second best ever result exceeding the figure we reported in 2004, itself a record year at the time. This, the fourth consecutive year of profit has boosted shareholders' equity to a new high point of £345.0 million, up from £301.5 million, at the end of 2005. The increase has been recognised by the affirmation by Standard & Poor's of Ecclesiastical's financial strength rating of A-, first awarded in 2005, and by an improvement in the financial strength rating from A. M. Best from A- to A.

In general insurance, we saw continued evidence of downward pressure on premium rating levels in the market at large. We monitor closely the trend in rating levels in all business units to ensure that underwriting discipline is maintained and that adequate returns can be made on the capital supporting our operations. Although the exceptional results in previous years and a period of generally lower claims costs has justified the giving of some ground, the growing appreciation of the value and overall service we provide to our customers in our niche markets has set us apart from the worst excesses of price-driven competition affecting those lines of business characterised by commoditised insurance business. This is reflected in our level of underwriting profitability where we held the combined operating ratio to under 90% on the earned basis. The underwriting result was a profit of £27.0 million compared with the prior year figure of £38.3 million.

The intensified competitive environment also affected gross premium growth. The effect of planned reductions in business from the transformation programme being implemented in Canada and the run-off from our involvement with agencies in the Mediterranean meant that premium income grew 3%, marginally ahead of the increase of 1% in 2005. The greater financial strength of recent years coupled with our belief that existing premium rating levels are sufficient to allow us to retain a little more insurance risk for our own account while preserving the important relationships we enjoy with our carefully chosen panel of international reinsurers. In consequence, net premiums written rose at the enhanced rate of 4% compared with 1% in 2005.

The year was also one of continued development in our financial services business conducted through Ecclesiastical Life and its subsidiaries. We were pleased to cement a relationship with the National Association of Funeral Directors and to be entrusted with the transfer of funds to secure existing funeral plan business sold through the Association's members. The acquisition of this business boosted sales growth to 84% on the annual premium equivalent basis. The relationship also offers the opportunity of future new business sales which began to materialise during the second half of the year. The transfer also lifted gross written premiums by £27.8 million compared with 2005. In the retail savings area, our range of Open Ended Investment Company (OEIC) investment funds continued to account for more than half of total sales of savings products measured by turnover (total premiums plus retail sales of investment contracts). Overall turnover increased by 104%.

Total gross written premiums for general and long term business reported in the consolidated income statement on page 21 increased by 12% to £403.3 million.

Ecclesiastical Insurance Office plc

Review of Group Operations

General Business - United Kingdom

Ecclesiastical has long enjoyed a strong reputation as the provider of protection and risk management services to customers in a number of specialist areas supporting the community. Further initiatives were taken during the year to build on this position and to develop the range of specialist sectors in which our expertise can be deployed. A notable example was the launch of a new product in October specifically aimed at meeting the needs of those entrusted with the care of heritage properties. The launch coincided with the public unveiling of Ecclesiastical's new brand identity in the UK. Coupled with the generally raised profile we adopted in the market place, new initiatives helped to offset the effect on premium growth of the limited rate weakening already mentioned. Gross premiums written in our principal UK retail division rose by 4% while net written premiums rose by 5% as the result of the planned increase in retained exposure.

Claims experience was generally benign and unaffected by any major weather events. A repeat of the previous year's below average rainfall in the early part of the summer produced an initial upsurge in the incidence of subsidence claims which then moderated towards the end of the year. The estimated total cost of individual large losses increased substantially on the previous year. Late in December a serious fire occurred in a sheltered care facility for the elderly which was reported nationally. Earlier in the year we suffered two major losses in churches caused by arson, each resulting in estimated damage of £2 million or more. Maliciously started fires are always distressing experiences for those involved and all the more so when they occur in places of worship.

We do all we can to provide advice to churches on managing risks such as these. Last year that advice was extended to raising awareness of an increasing trend towards the theft of external metal. This is an unwelcome by-product of the boom in commodity prices driven by an economic demand far removed from the everyday care of church and other heritage buildings and illustrates the unexpected influences that can preoccupy our underwriting, risk management and claims teams.

Evidence of the value placed on the advice and service we provide to churches was pleasingly seen as the number of Anglican churches we insure has increased once again. The strength of this relationship was reinforced through the latest in our series of annual competitions. The theme in 2006 was an examination of the role of parish churches in a changing society, aimed at sharing ideas for widening the involvement of churches in the community and improving understanding of the challenges faced.

The insights, service, helpful attitudes and understanding we bring are also key differentiators in meeting the specialist needs of customers in the care, charity, education and heritage sectors. We believe that there is a growing appreciation of our expertise in all these areas and we have been especially encouraged by the support received from our valued intermediary network.

Our customer strategy is supported by a commitment to deliver a high quality and professional service across the spectrum of transactions with customers and intermediaries. This commitment was reinforced by a number of changes introduced to coincide with the relaunch of the Ecclesiastical brand. The focus is on improving access and response times, literature and documentation, and on the development of the next phase of our website. Technology will be used to enhance the already high standards of service being provided by our teams in direct and intermediary operations and in claims.

Further good progress was made by Ansvar Insurance Company, our UK subsidiary which focuses on the free church and the "not-for-profit" sector. It has widened its range of services and begun a change programme to build on the values represented by its brand. Some pressure on premium rates contributed to a deterioration in underwriting profitability, with a decrease to £1.6 million compared with £3.3 million in 2005. Business previously underwritten by the Ecumenical Insurance Company was successfully transferred following the approval given by the High Court in 2005. We are pleased to have this opportunity of continuing to develop the service we give to customers in the United Reformed Church. Including the transfer, gross premiums rose at the lower rate of 4% compared with the previous year. Profit before tax fell to £2.8 million compared with £5.0 million in 2005.

Our relationships with both the Baptist and Methodist insurance companies continue to flourish. The extension of Ecclesiastical's value-added services to church customers in both of these denominations has enabled churches to benefit from our risk management expertise and to take action to avoid the difficulties that can so easily flow from under-insurance. Although the underlying premium growth trend was positive, the introduction of a premium discount in part of the business resulted in a small decrease of 2% overall. The underwriting result of our inwards reinsurance business was profitable.

Ecclesiastical Insurance Office plc

Review of Group Operations

General Insurance - International

International business underwritten by Ecclesiastical is sourced from overseas subsidiaries, branches, its London Market Operation and from reinsurance accepted from other companies around the world.

The collective result for this group of businesses improved in 2006 with an increased underwriting profit of £8.5 million compared with £5.6 million in 2005. The rate of growth in gross premiums also increased despite the continuing negative impact on premium income of the strategic realignments undertaken in the previous two years.

In Canada, the process of building the infrastructure to support the strategic focus of our business on faith organisations and the "not-for-profit" sector was completed with the implementation of a single integrated software system. Market conditions deteriorated and extremely competitive pricing aggravated the expected reduction in gross premiums following our withdrawal from non-core classes of business. Exchange rate movements eased the rate of contraction when consolidated in our UK accounts to 8.6%. Now that the refocusing has been completed, we are expecting the successes being achieved in acquiring new business in our chosen market sectors to feed through to an increase in premium volumes. All major programmes, including those for the Anglican Church, were retained and initiatives to develop a presence in similar niche sectors to those served in other parts of our worldwide operations, such as care and education, have started to generate business. In contrast to the previous year, there was an absence of weather-related catastrophes and a reduction in underwriting losses to £0.3 million.

In Ireland, despite a continuation of intensely competitive conditions, we made an underwriting profit of £0.1 million, down from £1.3 million in 2005. Gross written premiums fell by 10%. The implementation of a strategic review of our operations in Ireland was started. We believe that aligning our local targets more closely with the group's strategic objectives will afford us new opportunities. The new development will be led by Ronan Foley who has a wealth of Irish Insurance Market experience and was appointed in December. He succeeds Desmond Campbell who retired as Manager for Ireland on 1 March 2007 after 27 years with Ecclesiastical and who has been responsible for the development of our business there since operations began in 1980.

The portfolio of international property facultative business underwritten by Ecclesiastical Underwriting Management in the London Market developed strongly in 2006. The downward pressure on rating levels experienced in all other areas where we operate did not prevail to the same extent in this sector of the London Market and we were still able to carry increases on a proportion of business. In consequence, gross premium income rose by 28%. Underwriting profitability was strong and we have closed the 2004 underwriting year with a profit despite exposure to that year's hurricanes in the Gulf area.

The run-off of the small number of other London Market businesses from which we withdrew in previous years has progressed satisfactorily and we continue to maintain a prudent level of reserves. We have embarked upon a proposed solvent scheme of arrangement in connection with our past participation in the Global London Market pool. The total underwriting result from continuing and discontinued London market operations was a profit of £4.5 million compared with a breakeven result in the previous year.

One of our realignments, cemented in 2005, was the withdrawal from our agency operations in Cyprus and Malta. As expected, this led to a significant fall in gross premium income. We are grateful to SMS Insurance Agency, J. Makriyiannis & Son in Cyprus and GAP Vassilopoulos Insurance Agencies, also in Cyprus, for the professional way that Ecclesiastical's business has been run-off in accordance with contractual arrangements. A small surplus was generated during the year.

In Australia, our subsidiary Ansvar, produced another solid performance extending its strong record of profitability over recent years. Despite the re-emergence of price-based competition, underwriting results held up well with a profit of £3.4 million, a reduction on the £5.2 million achieved in 2005. The year was not without major claims activity which included exposure to cyclone Larry in North Queensland in March and to a fire in May causing the total loss of St. Barnabas Church, an historic building in Sydney with heritage listing. Demand from specialist customer sectors contributed to an increase of 2% in gross premiums written. This equated to a 5% rise in local currency. Considerable effort was put into reviewing strategic direction and the required investment in systems and people has begun following approval of the plans to move the company on to the next stage of its development.

Competitive conditions also prevailed in New Zealand and claims experience was adversely affected by an unusually high incidence of large fires in domestic dwellings. The rising trend in rebuilding costs is not automatically compensated for by the rating structures generally applied to household business in the New Zealand market and rates have been increased. Despite the combined effect of these pressures, gross premiums written rose by 2% in local terms and an underwriting profit was achieved. Steps were taken to widen the range of products available to churches and church people. The total profit before tax from our subsidiaries in Australia and New Zealand was £6.9 million, compared with £9.1 million in 2005.

The strength of Ansvar's results and capital base have led to the declaration of a maiden dividend paid in March 2007.

Ecclesiastical Insurance Office plc

Review of Group Operations

Financial Services

Ecclesiastical Life Limited's core purpose is to provide a range of specialist insurance and financial services to meet the needs of the clergy, their families and laity along with customers in selected affinity groups. The products sold include long term policies provided by Ecclesiastical Life itself while retail investment funds (savings products) are provided by other group companies.

A year of strong sales performance, new business increased by 84% on the industry standard measure (Annual Premium Equivalent). The agreement concluded with the National Association of Funeral Directors made a major contribution but growth achieved by the direct sales force was also strong at 34%. The equivalent industry average was 30%.

Measured by equivalent premium income, the share of new business sales of investment products represented by OEIC funds fell slightly, reversing the trend of recent years. Funds under management of Allchurches Investment Management Services Limited (a subsidiary of Ecclesiastical Life) nevertheless increased by 21%. The long term performance of all funds remained strong with the Higher Income Fund remaining in the first quartile throughout the year.

Following the annual bonus declaration for 2006, we were pleased to be able to maintain annual bonuses on with-profit policies. Final bonuses were increased at some short durations but decreased at long durations reflecting the effect of investment returns varying by generation. The Independent Actuary has confirmed that the declaration was consistent with the revised statement of Principles and Practices of Financial Management (PPFM) adopted by the Board at the end of 2005.

The total profit before tax in Ecclesiastical Life and its subsidiaries is £5.2 million. The shareholder's interest in the long term funds is restricted to the non-profit fund which produced a profit of £1.6 million after a £2.2 million strengthening of expense reserves. Surpluses generated in the with-profit fund are available for the sole benefit of with-profit policyholders and £8.4 million was transferred to the unallocated divisible surplus to support future bonus distributions.

Finance and Investment

In addition to a significant increase in retained profits Ecclesiastical's capital base was strengthened by the issue of a further £3.5 million 8.625% Non-Cumulative Irredeemable Preference shares which were placed on 27 July to respond to market demand.

Progression of global equity markets followed an erratic pattern but the year ended with positive capital returns as confidence in future economic growth prospects recovered and oil prices eased. The FTSE-100 index appreciated by 10.7%, but failed to match its rise of 16.7% in 2005. There was similar progress in the FTSE-All-Share index which rose by 13.2% compared with 18.1% in 2005.

Rising yields resulted in fair value losses of £11.8 million in fixed interest stocks. The total net investment return (including investment income and net fair value movements) was £94.0 million, 13% down on 2005. The net investment return in the general business segment was £46.1 million, some 18% lower than the previous year.

Total net investment return in the long term business decreased by 13% to £34.1 million.

Overall, our funds performed well relative to their respective benchmarks.

As referred to above, equity markets made progress worldwide during 2006, emulating the outcome of recent years. On the whole, values are perceived by various commentators to have merely kept pace with profits and dividend growth. Short-term interest rates on the other hand, having reached a very low base have been trending higher with some re-evaluation of inflationary expectations. Markets have recently been 'pausing for thought' but it is expected that profits and dividend growth will persist for 2007. Our investment approach will continue to be value driven, whilst maintaining high levels of liquidity in our portfolios.

Risk Management

The notes to the financial statements disclose in detail the insurance (note 3) and financial (note 4) risks to which Ecclesiastical's business is exposed. Further steps have been taken towards the development of our risk management framework and its application across all areas of the Group. Internal Audit plays an important role in providing independent assurance to the Board via the Group Audit Committee. To improve the standard of internal auditing to the level desired by the Board, we entered into a co-sourcing agreement with Mazars from September.

The development of Individual Capital Assessments for all FSA regulated entities continued and is being progressively embedded into the strategic management of our business. Individual Capital Guidance has now been provided by the FSA for all of the Group's UK companies and confirms the availability of sufficient capital resources to support Ecclesiastical's future strategy.

We continue to adopt a prudent approach to the calculation of reserves for both general and long term business. The process is fully described in note 29 to the financial statements.

Ecclesiastical Insurance Office plc

Review of Group Operations

Regulatory Developments

The items raised by the FSA following their second risk assessment conducted in July 2005 were successfully concluded during the year. In addition we participated in a number of the FSA's thematic reviews and received positive feedback about the extent to which we are responding to the various regulatory initiatives which have been introduced. We were particularly pleased to be able to demonstrate that we are exceeding the FSA's standards for contract certainty across our UK retail insurance business.

Regulatory reform across the EU, as well as in the UK, and compliance continues to absorb a significant amount of time and energy. We are pleased to respond, but we trust that the move towards a principles-based regime and the proposed simplification of the rules relating to the sale of general insurance will help the insurance industry move ahead cost effectively.

Conclusion

Another successful year of business performance has been accompanied by implementation of a number of important changes that will underpin the continued profitable development of Ecclesiastical. The relaunch of our brand and the focus on our core values of enthusiasm, caring, proactivity, expertise and honesty have been embraced by all of our staff. Their translation from words into actions ensures that Ecclesiastical truly stands out from the crowd.

This review of group operations is unusual in that it has been written by two Group Chief Executives. Graham Doswell stepped down at the end of 2006 as Group Chief Executive and was succeeded by Michael Tripp.

2006 has been another year of progress and produced good business performance. We strongly believe in our values and it is our people who make them come to life. We have a long history and one of which we are proud. We owe a huge debt of gratitude to our staff to whom we both pay tribute.

Michael Tripp
Group Chief Executive

Graham Doswell
Immediate past Group Chief Executive

Ecclesiastical Insurance Office plc

Graham Doswell - An Appreciation

Graham has lead Ecclesiastical for the last 9 years and passing three notable financial milestones reported in Ecclesiastical's Annual Report for 2005 - pre-tax profits over £100 million, shareholders' funds reaching £300 million and total grants to Allchurches Trust in excess of £5 million - are a fitting tribute to his contribution. He joined Ecclesiastical Insurance Group in June 1984 as Chief Underwriting Manager and over the succeeding years played a number of key roles, culminating as Group Chief Executive from 1997 to 2006.

Financial achievements are only one dimension of Graham's contribution. Since becoming Chief Executive he has steadily led the organisation through a wide range of change which has brought the Group to the strong position it enjoys today in the insurance world. He successfully guided the Group through the regulatory revolution which arrived when the Financial Services Authority acquired its overall responsibilities for the financial sector in 2001. Earlier in 1999 he was instrumental in acquiring the UK, Australian and New Zealand businesses from the old Ansvar Group, businesses which have flourished since then as part of the Ecclesiastical family. In addition he was responsible for forging relationships with the Baptist and Methodist insurance companies in 1998. These relationships continue to go from strength to strength.

Graham's detailed knowledge of the insurance business and ability to steer his way through the complex issues which seem to present themselves with increasing frequency have been enormously valuable in the development of Ecclesiastical during his period of tenure and before. His energy, enthusiasm and sense of fun have been an inspiration to all his colleagues in the organisation and on the Board.

Outside the Group, Graham has ensured that Ecclesiastical's voice has been heard through his past membership of the ABI Board and Committees and of the Financial Services Authority's Smaller Business Practitioner Panel. He is also an active supporter of his professional body, the Chartered Insurance Institute and is the Senior Warden of the Worshipful Company of Insurers.

As he moves into retirement, Graham is looking forward to spending more time with his wife Susan in their family home in the Cotswolds. His passion for cycling and motorcycling will be undiminished.

We feel sure readers of our accounts would want to join us in thanking Graham for the great contribution he has made to the Group, and through it, to the Church and to the wider world of the insurance industry in which he has worked for over 44 years.

Ecclesiastical Insurance Office plc

Directors and General Management

Directors	* N. J. E. Sealy FCA <i>Chairman</i> * D. R. Losse MA <i>Deputy Chairman</i> * The Rt. Revd. N. Baines BA <i>Bishop of Croydon</i> * D. Christie BA, BSc (Econ) Dip. Ed. * M. D. Couve BComm, LLM, MA Law, Solicitor * The Venerable N. Peyton MA, BD, STM <i>Archdeacon of Newark</i> G. A. Prescott BA, FCA <i>Deputy Group Chief Executive</i> * W. M. Samuel BSc, FCA M. H. Tripp BSc, ARCS, FIA <i>Group Chief Executive</i> S. A. Wood BSc, FCII
General Management	M. H. Tripp BSc, ARCS, FIA <i>Group Chief Executive</i> G. A. Prescott BA, FCA <i>Deputy Group Chief Executive</i> K. Bogue MA, FIA F. J. Holland MBCS W. G. Shearn BA, FCII S. A. Wood BSc, FCII
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
Consulting Actuaries	Watson Wyatt LLP, London
Solicitors	Speechly Bircham LLP, London
Registrar	Computershare Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH

* *Non-Executive and Independent Directors*

Ecclesiastical Insurance Office plc

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 and as Non-Executive Director in 2005.
Aged 68.

D. R. Losse

Deputy Chairman

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 69.

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 was in parochial ministry before being appointed Archdeacon of Lambeth in 2000. He was appointed Bishop of Croydon in May 2003. He is a writer and broadcaster.
Aged 49.

D. Christie

Appointed to the Board in 2001. He retired as Warden of St Edward's School, Oxford in 2004. Previously he taught and researched in economics in schools and universities in the United Kingdom and Europe. He is a Governor of several schools and trustee of other charities.
Aged 64.

M. D. Couve

Appointed to the board in June 2006. Consultant with Speechly Bircham, solicitors; a partner in that firm until the end of April 2007 and a former senior partner. He is a director of Shires Income plc and a Trustee of the English National Opera Trust.
Aged 59.

N. Peyton

Archdeacon of Newark

Appointed to the Board in 2005. He served in parochial ministry and as diocesan ministry development advisor before being appointed Archdeacon of Newark in 1999. A Nottingham magistrate until 2003, he has served on the General Synod of the Church of England and several of its commissions and committees since 1995.
Aged 56.

G. A. Prescott

Deputy Group Chief Executive

Appointed to the Board in 1995 and became Deputy Group Chief Executive in 1997. He serves on the investment committees of the Association of British Insurers, the Save the Children Fund and the Worshipful Company of Coopers. He is a Director of Martin Currie Income and Growth Trust plc and Mapfre Re.
Aged 62.

W. M. Samuel

Appointed to the Board in January 2006, he is a Vice Chairman of Lazard & Co., Director of Edinburgh Investment Trust, Chairman of Galiform Plc, and Deputy Chairman and senior Non-Independent, Non-Executive Director of Inchcape. Previously he was a Director of Schroder plc and Vice Chairman of Investment Banking of Citigroup Europe.
Aged 55.

M. H. Tripp

Group Chief Executive

Appointed Group Chief Executive in January 2007. Previously Partner at Ernst & Young and Watson Wyatt, before that with Guardian Royal Exchange. His other directorships include The Baptist Insurance Company plc.
Aged 51.

S. A. Wood

General Manager

Joined the group in September 2005 and is responsible for the UK General Insurance business. Appointed to the Board in January 2006.
Aged 46.

Ecclesiastical Insurance Office plc

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2006.

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 main subsidiary undertakings is given on page 78 and details of international branches are shown on page 81.

Review of the year and future developments

These are described in the Chairman's Statement and the Group Chief Executive's Review of Group Operations.

Results

The results of the group for the year are shown in the consolidated income statement on page 21.

Dividends	2006	2005
Dividends paid and accrued were as follows:	£000	£000
Second Preference shares - paid	-	150
Irredeemable Preference shares - paid	5,553	4,797
Ordinary shares - interim paid	500	410
	6,053	5,357

Dividends on the Second Preference shares are presented as interest payable in the financial statements as prescribed by IAS 32, *Financial Instruments: Disclosure and Presentation*. The Second Preference shares were redesignated as Irredeemable Preference shares during 2005.

The directors do not recommend a final dividend on the Ordinary shares (2005: £nil).

Directors

The directors of the company at the date of this report are stated on page 11.

The directors record with very great regret the death of Mr P. N. S. Clark on 11 June 2006.

Mr D. Christie, Mr G. A. Prescott and Mr N. J. E. Sealy retire by rotation and, being eligible, offer themselves for re-election.

Mr M. D. Couve was appointed to the board on 20 June 2006. Mr M. H. Tripp was appointed to the board on 1 January 2007. In accordance with the articles of association, they will retire at the forthcoming annual general meeting and, being eligible, offer themselves for election.

Mr W. H. Yates MBE resigned from the board on 20 June 2006. Mr G. V. Doswell resigned from the board on 31 December 2006. The directors wish to convey their gratitude for the contribution made by both directors.

The group has made qualifying third party indemnity provisions for the benefit of its directors, which were in place throughout the year and remain in force at the date of this report.

Ecclesiastical Insurance Office plc

Directors' Report

Directors' interests

The directors held no beneficial interest in any shares or debentures of the group during the year ended 31 December 2006. There has been no change in these interests since the end of the financial year to the date of this report. No contract of significance subsisted during or at the end of the financial year in which a director was or is materially interested.

Ownership

At 21 March 2007 all the issued equity capital of the company and 9.0% of the issued 8.625% Non-Cumulative Irredeemable 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 Ecclesiastical group in the year, including £2 million paid by our holding company, amounted to £10.7 million (2005: £5.8 million).

During the last ten years, a total of £52.3 million (2005: £44.8 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.

The group considers a number of key performance indicators in the assessment of its people strategy objective. In addition to numeric measures, such as staff turnover and absenteeism, the group pays particular attention to the outcome of its annual staff satisfaction and internal customer surveys, and has developed measures for assessing the success of its leadership and succession planning programmes.

Policy on payment of creditors

It is the group's policy to pay creditors promptly and fully, in accordance with the terms of their contracts. The group has not adopted any particular external code. The number of days' purchases represented by the amounts due to trade creditors of the group at 31 December 2006, calculated in accordance with Schedule 7 of the Companies Act 1985, was 15 days (2005: 11 days).

Principal risks and uncertainties

The principal risks and uncertainties, together with details of the financial risk management objectives and policies of the group and company, are disclosed in notes 3 and 4 to the financial statements.

Ecclesiastical Insurance Office plc

Directors' Report

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 adopted 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 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, Mr N. J. E. Sealy, six other non-executive directors and three 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 Group Chief Executive and general management team. The board has an established group audit committee, an appointments committee and a remuneration committee, details of which are given below.

Group audit committee

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

W. M. Samuel (Chairman)	D. R. Losse
M. D. Couve	

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.

Appointments committee

The appointments committee comprises the following non-executive directors, appointed by the board:

N. J. E. Sealy (Chairman)	D. R. Losse
D. Christie	

The committee meets periodically to review the structure, size and composition of the board and to evaluate the directors' skills, knowledge and experience. The committee considers the leadership needs and succession planning of the group when making decisions on new appointments.

Remuneration committee

The remuneration committee comprises the following non-executive directors, appointed by the board:

D. R. Losse (Chairman)	The Venerable N. Peyton
M. D. Couve	

The committee meets when necessary to determine the conditions of employment and pay and benefits of the chairman, each of the executive directors and the general management team.

Remuneration policy

The group's objective 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.

Ecclesiastical Insurance Office plc

Directors' Report

Executive directors and general management

The remuneration of the executive directors and general management team comprises a basic salary, pension contributions, annual and long term performance related bonuses (over rolling three year periods) at the discretion of the remuneration committee and certain benefits in kind, including a company car or car allowance. The other available benefit in kind is the provision of private medical insurance, which is on the same terms as for all eligible staff. There are no other incentive or share option schemes.

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

Service contracts

No director has a service contract with the company.

Pensions arrangement

Mr G. A. Prescott and Mr S. A. Wood 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.

Mr M. H. Tripp is a member of the group's defined contribution scheme introduced in 2006 and operated by Ecclesiastical Life Limited, a subsidiary undertaking. The group contributes up to 12% of an employees salary into the scheme.

External directorships

External directorships are considered to be valuable in terms of broadening the experience and knowledge of executive directors, provided there is no conflict of interest and the commitment required is not excessive. Such appointments are subject to the approval of the board. Monetary payments received by executive directors from outside directorships are paid over to and retained by the employer.

Internal controls

The board is ultimately responsible for the systems of internal controls maintained by the group. The board reviews the effectiveness of the group's system of internal controls annually and considers it to be appropriate for the group. The system of controls is 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 has direct access to the Group Chief Executive and to the chairman of the group 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 financial statements have, therefore, been prepared on the going concern basis.

Ecclesiastical Insurance Office plc

Directors' Report

Auditor and the disclosure of information to auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985.

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

Non-audit work

The company does not impose an automatic ban on the auditor undertaking non-audit work. The group's aim is to identify appropriate service providers and ensure that any non-audit work is carried out in a manner that affords full value for money. The service provider must not be in a position of conflict in respect of the work in question and must have the skill, competence and integrity to carry out the work in the best interests of the company and the group.

Auditors of the company are only permitted to perform audit-related and non-audit work if, in the opinion of the group audit committee, it is appropriate for them to do so and there are no actual or perceived independence issues.

By order of the board



Mrs R. J. Hall
Secretary

21 March 2007

Ecclesiastical Insurance Office plc

Statement of Directors' Responsibilities

The directors are responsible for preparing the annual report and the financial statements. The directors are required to prepare financial statements for the group in accordance with International Financial Reporting Standards (IFRS) and have also elected to prepare financial statements for the company in accordance with IFRS. Company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1, *Presentation of Financial Statements*, requires that the financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. Directors are also required to:

- Properly select and apply accounting policies;
- State whether the financial statements have been prepared on a going concern basis;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report which complies with the requirements of the Companies Act 1985.

The directors are responsible for the maintenance and integrity of the company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Ecclesiastical Insurance Office plc

Independent Auditors' Report

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

We have audited the group and individual company financial statements (the "financial statements") of Ecclesiastical Insurance Office plc for the year ended 31 December 2006 which comprise the consolidated income statement, the consolidated and individual company balance sheets, the consolidated and individual company cash flow statements, the consolidated and individual company statements of recognised income and expense and the related notes 1 to 39. 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

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the annual report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the annual report.

Basis of audit opinion

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

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

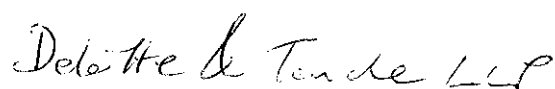
Ecclesiastical Insurance Office plc

Independent Auditors' Report

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2006 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2006;
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the financial statements.



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London

United Kingdom

21 March 2007

Ecclesiastical Insurance Office plc

Consolidated Income Statement

for the year ended 31 December 2006

	Notes	2006 £000	2005 £000
Revenue			
Gross written premiums	6	403,316	361,686
Outward reinsurance premiums	6	(121,093)	(118,389)
Net change in provision for unearned premiums	6	(4,170)	(1,788)
Net earned premiums	6	278,053	241,509
Fee and commission income	7	35,762	38,279
Net investment return	8	94,043	108,564
Total revenue		407,858	388,352
Expenses			
Claims and change in insurance liabilities	9	(231,965)	(180,252)
Reinsurance recoveries	9	50,118	36,537
Fees, commissions and other acquisition costs	10	(69,503)	(66,230)
Other operating and administrative expenses		(53,664)	(46,699)
Change in provisions for investment contract liabilities		(8,865)	(6,992)
Change in net asset value attributable to unitholders		(7,828)	(7,340)
Total operating expenses		(321,707)	(270,976)
Operating profit	11	86,151	117,376
Finance costs	14	(641)	(765)
Transfers to the unallocated divisible surplus		(8,399)	(15,541)
Profit before tax		77,111	101,070
Tax expense	15	(22,542)	(29,061)
Profit attributable to equity holders of the parent	27	54,569	72,009

Ecclesiastical Insurance Office plc

Consolidated and Parent Statement of Recognised Income and Expense

for the year ended 31 December 2006

	2006		2005	
	Group £000	Parent £000	Group £000	Parent £000
Net fair value gains on property	559	130	83	7
(Loss)/gain on currency translation differences	(4,316)	(2,722)	3,769	2,833
Net (expense)/income recognised directly in equity	(3,757)	(2,592)	3,852	2,840
Profit for the year after tax	54,569	45,256	72,009	56,436
Total recognised income and expense for the year	50,812	42,664	75,861	59,276

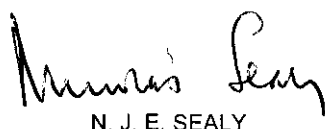
Ecclesiastical Insurance Office plc

Consolidated and Parent Balance Sheets

at 31 December 2006

	Notes	2006		2005	
		Group £000	Parent £000	Group £000	Parent £000
Assets					
Goodwill and other intangible assets	17	5,396	2,580	4,710	1,646
Deferred acquisition costs	18	29,477	22,048	29,121	21,396
Deferred tax assets	34	2,220	730	1,480	411
Pension assets	19	18,281	17,219	17,316	16,380
Property, plant and equipment	20	10,533	6,519	9,047	5,561
Investment property	21	36,207	31,251	29,959	27,290
Financial investments	22	877,346	423,764	814,945	405,086
Reinsurers' share of contract provisions	29	160,773	132,484	150,553	125,246
Current tax recoverable		206	78	1,129	1,055
Other assets	23	85,539	79,116	79,252	67,658
Cash and cash equivalents	24	234,425	153,548	169,301	112,801
Total assets		1,460,403	869,337	1,306,813	784,530
Equity					
Share capital	25	80,477	80,477	76,977	76,977
Share premium account	26	4,632	4,632	3,792	3,792
Retained earnings and other reserves	27	259,900	195,815	220,741	164,804
Total shareholders' equity	28	345,009	280,924	301,510	245,573
Liabilities					
Insurance contract provisions	29	830,386	483,779	768,639	454,288
Investment contract liabilities	30	56,214	-	48,846	-
Unallocated divisible surplus	31	38,105	-	29,706	-
Finance lease obligations	32	1,695	1,535	1,573	1,268
Provisions for other liabilities and charges	33	6,671	5,906	5,422	4,863
Retirement benefit obligations	19	8,506	8,506	7,103	7,103
Deferred tax liabilities	34	50,077	40,843	42,259	34,743
Current tax liabilities		4,984	3,701	7,607	3,911
Deferred income	35	15,140	11,978	15,187	11,624
Other liabilities	36	41,596	32,165	30,088	21,157
Net asset value attributable to unitholders		62,020	-	48,873	-
Total liabilities		1,115,394	588,413	1,005,303	538,957
Total shareholders' equity and liabilities		1,460,403	869,337	1,306,813	784,530

The financial statements on pages 21 to 79 were approved by the board of directors on 21 March 2007 and signed on their behalf by:



N. J. E. SEALY

Chairman



M. H. TRIPP

Group Chief Executive

Ecclesiastical Insurance Office plc

Consolidated and Parent Cash Flow Statements

for the year ended 31 December 2006

	2006		2005	
	Group £000	Parent £000	Group £000	Parent £000
Profit before tax	77,111	63,595	101,070	78,491
<i>Adjustments for:</i>				
Depreciation of property, plant and equipment	1,791	1,300	1,448	889
Loss on disposal of property, plant and equipment	15	-	43	25
Amortisation of intangible assets	1,304	857	2,075	1,694
Loss on disposal of intangible assets	-	-	33	33
Net fair value gains on financial investments & investment property	(46,001)	(20,657)	(61,402)	(27,684)
Dividend and interest income	(47,165)	(21,914)	(45,460)	(21,967)
Finance expense	641	298	765	698
<i>Changes in operating assets and liabilities:</i>				
Net increase in insurance contract provisions	71,014	34,243	15,458	15,153
Net (increase)/decrease in reinsurers' share of contract provisions	(12,573)	(8,421)	4,651	2,705
Net increase in investment contract liabilities	7,368	-	6,628	-
Net (increase)/decrease in deferred acquisition costs	(930)	(974)	(14)	260
Net increase in other assets	(7,884)	(11,636)	(4,713)	(5,485)
Net increase/(decrease) in operating liabilities	9,757	9,176	(3,770)	(5,500)
Net increase in other liabilities	24,204	2,446	29,286	1,531
Cash generated by operations	78,652	48,313	46,098	40,843
Dividends received	14,451	5,611	10,947	4,495
Interest received	34,976	18,115	30,625	15,039
Interest paid	(641)	(298)	(347)	(279)
Tax paid	(15,098)	(9,568)	(17,709)	(13,197)
Net cash from operating activities	112,340	62,173	69,614	46,901
Cash flows from investing activities				
Purchases of property, plant and equipment	(2,333)	(1,671)	(2,990)	(2,516)
Proceeds from the sale of property, plant and equipment	86	-	75	2
Purchases of intangible assets	(2,062)	(1,827)	(1,283)	(617)
Purchases of financial investments & investment property	(276,745)	(34,058)	(268,445)	(67,854)
Sale of financial investments & investment property	246,463	27,575	187,815	17,786
Net cash used by investing activities	(34,591)	(9,981)	(84,828)	(53,199)
Cash flows from financing activities				
Net proceeds from the issue of shares	4,340	4,340	22,440	22,440
Payment of finance lease liabilities	(444)	(349)	(429)	(345)
Repayment of other borrowings	-	-	(3)	(3)
Dividends paid to company's shareholders	(6,463)	(6,463)	(4,797)	(4,797)
Donations paid to ultimate parent undertaking	(5,200)	(5,200)	(8,250)	(8,250)
Net cash (used by)/from financing activities	(7,767)	(7,672)	8,961	9,045
Net increase/(decrease) in cash and cash equivalents	69,982	44,520	(6,253)	2,747
Cash and cash equivalents at beginning of year	169,301	112,801	172,193	107,561
Exchange (losses)/gains on cash and cash equivalents	(4,858)	(3,773)	3,361	2,493
Cash and cash equivalents at end of year	234,425	153,548	169,301	112,801

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

1 Accounting policies

The principal accounting policies adopted in preparing the group's International Financial Reporting Standards (IFRS) financial statements are set out below.

Basis of preparation

The group's consolidated financial statements have been prepared using the accounting policies set out below, which are in accordance with IFRS's applicable at 31 December 2006 issued by the International Accounting Standards Board and endorsed by the European Union. The financial statements have been prepared on the historical cost basis, except for the revaluation of properties and certain financial instruments.

In accordance with IFRS 4, *Insurance Contracts*, the group has applied existing accounting practices for insurance and participating investment contracts, modified as appropriate to comply with the IFRS framework and applicable standards.

Items included in the financial statements of each of the group's entities are measured in the currency of the primary economic environment in which that entity operates (the 'functional currency'). The consolidated financial statements are stated in sterling, which is the company's functional and presentation currency.

The group has not adopted early IFRS 7, *Financial Instruments: Disclosures* and amendments to IAS 1, *Presentation of the Financial Statements - Capital Disclosures*, which are effective for accounting periods beginning on or after 1 January 2007. IFRS 7 will result in amendments to the disclosure of financial assets and liabilities, and the amendments to IAS 1 will introduce disclosures about the level of capital and policies for management of capital. In addition, IFRIC Interpretation 8, *Scope of IFRS 2*, IFRIC Interpretation 9, *Reassessment of Embedded Derivatives*, IFRIC Interpretation 10, *Interim Financial Reporting and Impairment* and IFRIC Interpretation 11, *IFRS 2: Group and Treasury Share Transactions*, were issued in the year, but are not effective for 2006 years ends. These interpretations are not expected to impact on the group's results.

Use of estimates

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Segment reporting

A business segment is an operation that provides products or services that are subject to risks and returns that are different from other business segments. A geographical segment provides products or services within a particular economic environment that are subject to risks and returns that are different from other geographical segments.

Basis of consolidation

Subsidiaries

Subsidiaries are those entities in which the group, directly or indirectly, has the power to govern the financial and operating policies in order to gain economic benefits. The results and cash flows relating to subsidiaries acquired or disposed of in the year are included in the consolidated income statement and the consolidated cash flow statement from the date of acquisition or up to the date of disposal. All inter-company transactions, balances and profits are eliminated.

In the parent balance sheet subsidiaries are accounted for within financial investments at cost, in accordance with IAS 27, *Consolidated and Separate Financial Statements*.

The group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

1 Accounting policies (continued)

Investment vehicles

Investment vehicles such as mutual funds, where a group company controls more than 50%, are consolidated. The minority interests in these vehicles are classified as liabilities and appear as net asset value attributable to unitholders in the consolidated balance sheet.

Foreign currency translation

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

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

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. Exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

Product classification

Contracts under which the group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder, are classified as insurance contracts. Contracts that do not transfer significant insurance risk are classified as investment or service contracts.

Both insurance and investment contracts may contain a discretionary participating feature, which is defined as a contractual right to receive additional benefits as a supplement to guaranteed benefits. These participating contracts are referred to as with-profit contracts in the financial statements. Contracts that do not contain a discretionary participating feature are referred to as non-profit contracts in the financial statements.

Amounts collected under investment contracts without a discretionary participating feature, referred to as investment contracts in the financial statements, are not accounted for through the income statement, except for the investment income attributable to those contracts, but are accounted for directly through the balance sheet as an adjustment to the investment contract liability.

Premium income

General insurance business

Premiums are shown gross of commission paid to intermediaries and accounted for in the period in which the risk commences. Estimates are included for premiums not notified by the year end and provision is made for the anticipated lapse of renewals not yet confirmed. Those proportions of premiums written in a year which relate to periods of risk extending beyond the end of the year are carried forward as unearned premiums.

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

Long term business

For insurance contracts, premiums are recognised as revenue when the liabilities arising from them are created. All other premiums including annuity considerations are accounted for when due for payment.

For investment contracts, amounts collected as premiums are not included in the income statement but are reported as deposits to investment contract liabilities in the balance sheet.

Revenue from investment contracts

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

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

1 Accounting policies (continued)

Other fee and commission income

Other fee and commission income consists primarily of reinsurance commissions receivable, investment fund management fees, distribution fees from mutual funds and commission revenue from the sale of mutual fund shares. Reinsurance commissions receivable and other commission income are recognised on the trade date. Revenue from investment management fees and distribution fees is recognised when earned.

Net investment return

Investment income consists of dividends, interest and rents receivable for the year, realised gains and losses, and unrealised gains and losses on financial investments and investment properties. Dividends on equity securities are recorded as revenue on the ex-dividend date. Interest and rental income is recognised as it accrues.

Unrealised gains and losses on investments are calculated as the difference between carrying value and original cost, and the movement during the year is recognised in the income statement. 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.

Claims

Long term insurance business claims reflect the cost of all claims arising during the year and are recognised when payment is due. For investment contracts, claims are not included in the income statement but are instead deducted from investment contract liabilities.

General insurance claims incurred include all losses occurring during the year, whether reported or not, related handling costs, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Claims handling costs include all internal and external costs incurred in connection with the negotiation and settlement of claims.

Insurance contract liabilities

General insurance provisions

(i) Outstanding claims provisions

General insurance outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims handling costs. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, the ultimate cost of which cannot be known with certainty at the balance sheet date. Any estimate represents a determination within a range of possible outcomes. Claims provisions are not discounted.

(ii) Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as a provision for unearned premiums. The change in this provision is taken to the income statement in order that revenue is recognised over the period of risk.

(iii) Liability adequacy

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.

Long term business provisions

Under current IFRS requirements, insurance contract liabilities are measured using accounting policies consistent with those adopted previously. Accounting for such contracts is determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005.

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

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

1 Accounting policies (continued)

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.

Unallocated divisible surplus

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, referred to as the with-profit fund in the financial statements, is appropriated by the directors to with-profit policyholders by way of bonuses, with the unallocated balance carried forward in the unallocated divisible surplus.

Investment contract liabilities

Investment contracts consist primarily of unit-linked contracts. Unit-linked liabilities are measured by reference to the value of the underlying net asset value of the selected unitised investment funds at the balance sheet date. The holdings in these funds are designated at fair value through the income statement. In order to prevent a measurement inconsistency investment contract liabilities have also been designated at fair value through the income statement.

Reinsurance

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

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

Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the identifiable assets and liabilities of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions prior to 1 January 2004 (the date of transition to IFRS) is carried at book value (original cost less amortisation) on that date, less any subsequent impairment.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Other intangible assets

Other intangible assets consist of computer software and are carried at historical cost less accumulated amortisation. These are amortised over their useful lives of 3 to 5 years, using the straight-line method. The amortisation charge for the period is included in the income statement under other operating and administrative expenses.

Property, plant and equipment

Owner occupied properties are stated at open market value and movements are taken to a separate reserve within equity. When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings. Valuations are carried out at least every three years by external qualified surveyors. All other items classed as property, plant and equipment within the balance sheet are carried at historical cost less accumulated depreciation.

Land is not depreciated. No depreciation is provided on owner occupied properties since such depreciation would be immaterial. Depreciation is calculated on the straight-line method to write down the cost of other assets to their residual values over their estimated useful lives as follows:

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

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

1 Accounting policies (continued)

Investment property

Investment property comprises land and buildings which are held for long term rental yields. It is carried at fair value with changes in fair value recognised in the income statement within net investment return. Investment property is valued annually by external qualified surveyors at open market value.

Offset of financial assets and financial liabilities

Financial assets and liabilities are offset, and the net amount reported in the balance sheet, when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Financial investments

The group classifies its investments as either financial assets designated at fair value through the income statement or loans and receivables.

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

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

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

Derivative financial instruments

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

For a variety of reasons, group derivative transactions, while providing effective economic hedges under the group's risk management positions, *do not qualify for hedge accounting under the specific IFRS rules and are therefore treated as derivatives held for trading.* Their fair value gains and losses are recognised immediately in net investment return.

Deferred acquisition costs

General insurance business

For general insurance business, a proportion of commission and other acquisition costs relating to unearned premiums is carried forward as deferred acquisition costs or, with regard to reinsurance outwards, as deferred income. Deferred acquisition costs are amortised over the period in which the related revenues are earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset.

Long term business

For insurance contracts, acquisition costs comprise direct costs such as initial commission and the indirect costs of obtaining and processing new business. Acquisition costs which are incurred during a financial year are deferred and amortised over the period during which the costs are expected to be recoverable.

For investment contracts, only directly related acquisition costs, which vary with and are related to securing new contracts and renewing existing contracts, are deferred to the extent that they are recoverable out of future revenue. All other costs are recognised as expenses when incurred. Deferrable acquisition costs for investment contracts are amortised over the period in which the service is provided.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts.

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

1 Accounting policies (continued)

Leases

Leases, where a significant portion of the risks and rewards of ownership is retained by the lessor, are classified as operating leases. Payments made as lessees under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Leases where a significant portion of the risks and rewards of ownership is transferred to the group are classified as finance leases. Assets obtained under finance lease contracts are capitalised as property, plant and equipment and are depreciated over the period of the lease. Obligations under such agreements are included in borrowings net of finance charges allocated to future periods. The interest element of the lease payments is charged to the income statement over the period of the lease.

Provisions and contingent liabilities

Provisions are recognised when the group has a present legal or constructive obligation, as a result of past events, and it is probable that an outflow of resources, embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is more probable than not.

The group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Contingent liabilities are disclosed if the future obligation is probable but the amount cannot be reliably estimated.

Employee benefits

Pension obligations

The group operates a number of defined benefit and defined contribution plans, the assets of which are held in separate trustee administered funds.

For defined benefit plans, the pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of employees, in accordance with the advice of qualified actuaries. The pension obligation is measured as the present value of the estimated future cash outflows using a discount rate based on market yields for high quality corporate bonds. The resulting pension scheme surplus or deficit appears as an asset or obligation in the consolidated and parent balance sheets.

In accordance with IAS 19, *Employee Benefits*, actuarial gains or losses are accounted for using the "corridor method". Actuarial gains and losses are recognised in the income statement to the extent that they exceed 10 per cent of the greater of the fair value of the scheme assets or the present value of the gross defined benefit obligations in the scheme. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

Contributions in respect of defined contribution schemes are recognised as an expense in the income statement as incurred.

Other post-employment obligations

Some group companies provide post-employment healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses are recognised immediately in the income statement. Independent qualified actuaries value these obligations annually.

Other benefits

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

1 Accounting policies (continued)

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items taken directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable profit for the period and any adjustment to the tax payable in respect of previous periods.

Deferred tax is provided in full on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax is measured using tax rates expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled based on tax rates and law which have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are not discounted.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs, and subsequently stated at amortised cost.

Preference shares which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement within finance costs.

Appropriations

Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are declared and, for the final dividend, approved by shareholders. Dividends on irredeemable preference shares are recognised in the period in which they are declared and appropriately approved.

Charitable grant to ultimate parent undertaking

Payments are made via gift aid to the ultimate parent company, Allchurches Trust Limited, a registered charity. The group does not regard these payments as being expenses of the business and, as such, recognises them net of tax in equity in the period in which they are approved.

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

2 Critical accounting estimates, and judgements in applying accounting policies

The group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are regularly reviewed and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) The ultimate liability arising from claims made under general business insurance contracts

The estimation of the ultimate liability arising from claims made under general business insurance contracts is a critical accounting estimate. There are various sources of uncertainty as to how much the group will ultimately pay with respect to such contracts. There is uncertainty as to the total number of claims made on each class of business, the amounts that such claims will be settled for and the timings of any payments.

The uncertainties surrounding the estimates of claims payments for the various classes of business are discussed further in note 3.

(b) Estimate of future benefit payments and premiums arising from long term insurance contracts

The determination of the liabilities under long term insurance contracts is dependent on estimates made by the group.

Estimates are made as to the expected number of deaths for each of the years in which the group is exposed to risk. The group bases these estimates on standard industry and national mortality tables that reflect recent historical mortality experience. For contracts that insure the risk of longevity, appropriate allowance is made for expected mortality improvements. The estimated number of deaths determines the provisions for forecast benefit payments net of forecast premium receipts.

Estimates are also made as to future investment income arising from the assets backing long term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

For with-profit contracts and non-profit contracts that are not unit-linked, estimates of future deaths, investment returns and administration expenses form the assumptions used for calculating the liabilities of the contract. A margin for risk and uncertainty is added to these assumptions.

(c) Pension and other post-employment benefits

The cost of these benefits and the present value of the pension and other post-employment benefit liabilities depend on factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the charge in the income statement for these benefits include the expected long term rate of return on the relevant plan assets, the discount rate and, in the case of the post-employment medical benefits, expected medical costs inflation. Any changes in these assumptions will impact the income statement charge and may affect planned funding of the pension plans. The expected return on plan assets assumption is determined by considering long term historical returns, asset allocation and future estimates of long term investment returns. The group determines an appropriate discount rate at the end of each year, to be used to determine the present value of estimated future cash outflows expected to be required to settle the pension and post-employment benefit obligations.

In determining the appropriate discount rate, the group considered interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. The expected rate of medical costs has been determined by comparing the historical relationship of the actual medical cost increases with the rate of inflation. Other key assumptions for the pension and post-employment benefit costs and credits are based in part on current market conditions. Additional information is disclosed in note 19.

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Notes to the Financial Statements

3 Insurance risk

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

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

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

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

(a) General business risks

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

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

Frequency and severity of claims

Property classes

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

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

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

Liability classes

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

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

3 Insurance risk (continued)

The group has the right to re-price the risk on renewal. It also has the ability to impose deductibles, reject fraudulent claims and pursue third parties for payment of some or all costs. The severity of bodily injury claims is highly influenced by the value of loss of earnings and the future cost of care.

Concentrations of risk

The underwriting strategy is designed to ensure that the underwritten risks are well diversified in terms of type and amount of risk and geographical spread. The group protects its gross underwriting exposure through the use of a comprehensive programme of reinsurance. The concentration of insurance risk for the financial year before and after reinsurance by territory in relation to the type of risk accepted is summarised below, with reference to written premiums:

2006		Type of risk				
		Property	Liability	Motor	Accident	Total
Group		£000	£000	£000	£000	£000
Territory						
United Kingdom	Gross	195,093	65,352	21,397	6,474	288,316
	Net	107,996	58,197	19,788	6,116	192,097
Australia and New Zealand	Gross	31,604	12,115	6,817	405	50,941
	Net	15,325	10,318	6,570	354	32,567
Canada	Gross	10,211	3,695	-	-	13,906
	Net	7,346	3,271	-	-	10,617
Other overseas	Gross	3,441	1,556	98	25	5,120
	Net	1,522	1,387	89	24	3,022
Total	Gross	240,349	82,718	28,312	6,904	358,283
	Net	132,189	73,173	26,447	6,494	238,303
Parent						
Territory						
United Kingdom	Gross	188,080	59,037	19,330	5,829	272,276
	Net	103,114	53,678	18,348	5,644	180,784
Canada	Gross	10,211	3,695	-	-	13,906
	Net	7,346	3,271	-	-	10,617
Other overseas	Gross	3,441	1,556	98	25	5,120
	Net	1,522	1,387	89	24	3,022
Total	Gross	201,732	64,288	19,428	5,854	291,302
	Net	111,982	58,336	18,437	5,668	194,423

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

3 Insurance risk (continued)

2005		Type of risk				Total £000
Group		Property £000	Liability £000	Motor £000	Accident £000	
Territory						
United Kingdom	Gross	184,969	59,622	21,480	6,368	272,439
	Net	101,520	51,931	19,321	6,116	178,888
Australia and New Zealand	Gross	25,328	12,734	11,118	1,298	50,478
	Net	12,819	10,789	7,705	1,204	32,517
Canada	Gross	10,932	4,284	-	-	15,216
	Net	8,533	3,778	-	-	12,311
Other overseas	Gross	5,396	1,931	1,071	103	8,501
	Net	2,564	1,726	993	99	5,382
Total	Gross	226,625	78,571	33,669	7,769	346,634
	Net	125,436	68,224	28,019	7,419	229,098
Parent						
Territory						
United Kingdom	Gross	176,687	53,897	19,260	5,685	255,529
	Net	96,565	47,788	17,760	5,598	167,711
Canada	Gross	10,932	4,284	-	-	15,216
	Net	8,533	3,778	-	-	12,311
Other overseas	Gross	5,396	1,931	1,071	103	8,501
	Net	2,564	1,726	993	99	5,382
Total	Gross	193,015	60,112	20,331	5,788	279,246
	Net	107,662	53,292	18,753	5,697	185,404

Sources of uncertainty in the estimation of future claim payments

Property classes

The property classes, including property damage under motor contracts, give rise to a variety of different types of claims including fire, business interruption, weather damage, subsidence, accidental damage to insured vehicles and theft. There can be variability in both the number of claims in each period and the size of those claims. If a weather event happens near the end of the financial year, then the uncertainty about ultimate claims cost in the financial statements is much higher because there is insufficient time for adequate data to be received to assess the final cost of claims.

Claims payment on average occurs within a year of the claim event, however there is variability around this average with larger claims typically taking longer to settle.

Subsidence claims are difficult to predict because the damage is often not apparent for some time. Changes in soil moisture conditions can give rise to changes in claim volumes over time. The ultimate settlements can be small or large with a greater risk of a settled claim being re-opened at a later date.

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

3 Insurance risk (continued)

Liability classes

The settlement value of claims arising under public and employers' liability and the liability element of motor contracts is particularly difficult to predict. There is uncertainty as to whether any payments will be made and, if they are, the amount and timing of the payments. Key factors driving the high levels of uncertainty include the late notification of possible claim events and the legal process.

Late notification of possible claims necessitates the holding of provisions for incurred claims that may only emerge some years into the future. In particular the effect of inflation over such a long period can be considerable and is uncertain. A lack of comparable past experience makes it difficult to quantify the number of claims and, for certain types of claims, the amounts for which they will ultimately settle. The legal and legislative framework continues to develop which has a consequent impact on the uncertainty as to the length of the claims settlement process and the ultimate settlement amounts.

Claims that may arise from the liability portfolios include damage to property, physical injury, disease and psychological trauma. The group has a different exposure profile to most other commercial lines insurance companies as it has lower exposure to industrial risks, where uncertainty is higher. Therefore, claims for industrial diseases are less common for the group than injury claims such as slips, trips and back injuries.

Claims payment, on average, occurs about three years after the event that gives rise to the claim. However, there is significant variability around this average.

Note 29 presents the development of the estimate of ultimate claim cost for public and employers' liability claims occurring in a given year. This gives an indication of the accuracy of the estimation technique for incurred claims.

Sources of uncertainty

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

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

Prudence in the provisions for outstanding claims

The group has taken into account the uncertain nature of claims reporting and settlement when provisioning for outstanding claims.

Special provisions for latent claims

The public and employers' liability classes can give rise to very late reported claims, which are often referred to as latent claims. These can vary in nature and are difficult to predict. They typically emerge slowly over many years. The group has taken a prudent approach to reflect this uncertainty and believes that it holds adequate reserves for latent claims that may result from exposure periods up to the reporting date.

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

3 Insurance risk (continued)

(b) Long term business fund

Frequency and severity of claims

The group provides a range of life insurance products, which are summarised in the table below:

	With-profit fund £000	Non-profit fund £000	Total £000
Long term business provision as at 31 December 2006			
Life assurance	81,544	38,290	119,834
Pensions assurance	39,611	-	39,611
Pensions annuities in payment	-	59,693	59,693
Life annuities in payment	-	17,915	17,915
Permanent health insurance	-	455	455
Total	121,155	116,353	237,508
Investment products	-	56,214	56,214
Total technical provisions excluding outstanding claims, net of reinsurance	121,155	172,567	293,722
Long term business provision as at 31 December 2005			
Life assurance	84,898	6,201	91,099
Pensions assurance	39,061	202	39,263
Pensions annuities in payment	-	60,011	60,011
Life annuities in payment	-	22,936	22,936
Other life	-	2,100	2,100
Permanent health insurance	-	556	556
Total	123,959	92,006	215,965
Investment products	-	48,846	48,846
Total technical provisions excluding outstanding claims, net of reinsurance	123,959	140,852	264,811

Long term insurance contracts

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics or wide-spread changes in lifestyle resulting in more or less claims than expected. For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that would increase longevity.

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

The group manages these risks through its underwriting strategy and reinsurance arrangements. Industry standard tables are used to price products. No allowance is made for the group's own claims experience as it is not statistically significant. The group's exposure is limited by reinsurance arrangements that restrict exposure on a single risk. Both yearly renewable term and original terms reinsurance arrangements are used.

Both pension and life annuities in payment provide a defined income stream to the client which is commonly contingent on survival. The primary risks on these contracts are the level of future investment returns on the assets backing the liability and the longevity of the policyholders. The investment risk has been largely mitigated by holding fixed interest assets of a similar term to the expected longevity profile. The longevity risk is retained by the group and directly impacts shareholders' equity.

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

3 Insurance risk (continued)

Both with-profit life and pensions assurance products provide a combination of guaranteed and discretionary benefits for policyholders. The principal risks associated with these contracts are interest rate and equity price risk. In the first instance these risks are borne by the unallocated divisible surplus, which is available for allocation to policyholders as discretionary benefits.

There are no material concentrations of risk in respect of life assurance or annuity business.

The non-profit fund bears any difference between future administration expenses and the specified fees charged to the with-profit fund. The reserves in the non-profit fund for with-profit life and pension contracts reflect a shortfall between the forecast fees receivable and forecast expenses.

Insurance risk for contracts disclosed in this note is also affected by the policyholders' right to pay reduced or no future premiums, or to terminate the contract completely. As a result, the amount of insurance risk is also subject to policyholder behaviour. The group has considered the impact of policyholders' behaviour in the calculation of these liabilities.

Group life yearly renewable contracts

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

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

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

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

Long term insurance contracts

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

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

Group life yearly renewable contracts

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

Options and guarantees

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

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

With-profit guaranteed annuity options

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

The difference between the purchase price of the pension at current interest rates and the amount withdrawn from the contract represents the cost of the guarantee. An additional liability of £0.7 million (2005: £0.8 million) has been set up to cover the expected costs until the end of 2007. If interest rates were 1% lower than currently, this liability would increase to £1.1 million (2005: £1.4 million).

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Notes to the Financial Statements

3 Insurance risk (continued)

With-profit maturity and surrender value guarantees

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

The difference between the guaranteed benefits and the value of the assets deemed to be allocated to policies (their asset share) at maturity or at the point of surrender, represents the net cost of the guarantees. For maturities in 2007, this net cost is expected to total £0.2 million (2005: £0.4 million expected for 2006) and for surrenders it is expected to total £0.1 million (2005: £0.1 million expected for 2006). The discounted value of these amounts is included within the with-profit policyholder liabilities for the relevant policies.

The cost of the guarantees is most affected by a fall in equity returns and if returns were 10% lower than anticipated, the above costs would increase to £0.5 million (2005: £0.9 million) and £0.2 million (2005: £0.3 million) respectively.

No market value reduction (MVR) guarantees

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

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

The cost of the guarantee is determined by the relationship between the total benefits on the contract and the total asset share when applied to the amount of the withdrawal. If withdrawals were made on all contracts up to the maximum level for the no MVR guarantee, then the total cost in 2007 is expected to total £0.1 million (2005: £0.1 million expected for 2006). This is allowed for in determining the liabilities for the contracts.

The cost of the guarantee is most affected by a fall in equity returns, and if returns were 10% lower than anticipated, the cost would increase to £0.2 million (2005: £0.3 million) .

With-profit guaranteed regular bonus rates

Until 31 December 2008, the deposit administration group pension contracts have a guaranteed regular bonus rate of 3% per annum. It has not been deemed necessary to hold additional reserves in excess of the basic policyholder liabilities for this guarantee.

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Notes to the Financial Statements

4 Financial risk

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

(a) Interest rate risk

The table below summarises the effective interest rate and maturity dates at the balance sheet date for those financial assets and financial liabilities that are exposed to interest rate risk.

	Effective interest rate %	Maturing within:			Total £000
		1 year or less £000	2-5 years £000	More than 5 years £000	
<i>Group</i>					
As at 31 December 2006					
Assets:					
Debt securities	4.3	41,419	131,278	260,683	433,380
Mortgage and other loans	5.9	43	292	12,379	12,714
Non-profit reinsurers' share of long term business provisions	n/a	1,239	420	94	1,753
Other assets including insurance receivables	6.2	23,763	-	-	23,763
Cash and cash equivalents	4.5	234,425	-	-	234,425
		300,889	131,990	273,156	706,035
Liabilities:					
Finance lease obligations	9.7	232	1,463	-	1,695
Non-profit long term business provisions	n/a	2,079	2,558	113,469	118,106
Investment contract liabilities	n/a	2,110	6,493	47,611	56,214
		4,421	10,514	161,080	176,015
As at 31 December 2005					
Assets:					
Debt securities	3.7	58,242	126,686	244,044	428,972
Mortgage and other loans	5.9	16	469	5,736	6,221
Non-profit reinsurers' share of long term business provisions	n/a	1,009	569	70	1,648
Other assets including insurance receivables	6.2	20,970	-	-	20,970
Cash and cash equivalents	3.7	169,301	-	-	169,301
		249,538	127,724	249,850	627,112
Liabilities:					
Finance lease obligations	9.5	294	1,279	-	1,573
Non-profit long term business provisions	n/a	10,386	28,217	55,051	93,654
Investment contract liabilities	n/a	1,833	5,642	41,371	48,846
		12,513	35,138	96,422	144,073

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Notes to the Financial Statements

4 Financial risk (continued)

	Effective interest rate %	Maturing within:			Total
		1 year or less £000	2-5 years £000	More than 5 years £000	£000
<i>Parent</i>					
As at 31 December 2006					
Assets:					
Debt securities	4.9	29,319	86,236	90,633	206,188
Mortgage and other loans	5.9	23	30	187	240
Loans to related parties	5.5	-	8,426	3,708	12,134
Other assets including insurance receivables	6.4	21,256	-	-	21,256
Cash and cash equivalents	4.4	153,548	-	-	153,548
		204,146	94,692	94,528	393,366
Liabilities:					
Finance lease obligations	9.7	177	1,358	-	1,535
		177	1,358	-	1,535
As at 31 December 2005					
Assets:					
Debt securities	4.2	39,356	78,594	97,623	215,573
Mortgage and other loans	5.8	-	92	246	338
Loans to related parties	5.1	-	-	5,167	5,167
Other assets including insurance receivables	6.2	18,681	-	-	18,681
Cash and cash equivalents	3.5	112,801	-	-	112,801
		170,838	78,686	103,036	352,560
Liabilities:					
Finance lease obligations	9.5	229	1,039	-	1,268
		229	1,039	-	1,268

Those financial assets with fixed interest rates are subject to fair value interest rate risk. Those with variable interest rates are subject to cash flow interest rate risk.

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

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

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

4 Financial risk (continued)

Non-profit contracts excluding unit-linked

The benefits payable to policyholders under these contracts are independent of the returns generated by interest bearing assets. Therefore the interest rate risk on the invested assets supporting these liabilities is borne by the group. This risk can be eliminated by purchasing fixed interest investments with durations that precisely match the profile of the liabilities. For practical purposes it is not possible to exactly match the durations due to the uncertain profile of liabilities (eg mortality risk) and the availability of suitable assets. Some interest rate risk will persist. The group monitors its exposure by comparing projected cashflows for these assets and liabilities and making appropriate adjustments to its investment portfolio.

With-profit contracts

All contracts are held in a distinct fund. The surplus of assets over liabilities in this fund is available solely to provide future benefits for insurance policyholders. The group is not entitled to a share of this surplus. There is therefore no price, currency, credit, or interest rate risk to the group for these contracts under current circumstances. It is possible under some circumstances that guaranteed benefits will exceed the fund's assets and the group could be called upon to provide financial support to the fund. The nature of these guarantees is described in more detail in note 3(b).

Unit-linked contracts

For unit-linked contracts the group matches all the assets on which the unit prices are based with assets in the portfolio. There is therefore no price, currency, credit, or interest rate risk to the group for these contracts.

(b) Credit risk

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

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

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

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

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

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

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

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

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Notes to the Financial Statements

4 Financial risk (continued)

(c) Liquidity risk

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

(d) Currency risk

The group operates internationally and its exposures to foreign exchange risk arise primarily with respect to the US dollar, the Australian dollar, the Canadian dollar and the Euro. The group's foreign operations generally invest in assets denominated in the same currencies as their insurance liabilities, which mitigates the foreign currency exchange rate risk for these operations. As a result, foreign exchange risk arises from recognised assets and liabilities denominated in other currencies and net investments in foreign operations.

The group exposure to foreign currency risk within the investment portfolios arises from purchased investments that are denominated in currencies other than sterling.

The group foreign operations create two sources of foreign currency risk:

- the operating results of the group foreign branches and subsidiaries in the group financial statements are translated at the average exchange rates prevailing during the period; and
- the equity investment in foreign branches and subsidiaries is translated into sterling using the exchange rate at the financial statement period-end date.

(e) Price risk

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

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Notes to the Financial Statements

5 Segment information

(a) Primary reporting format - business segments

At 31 December 2006, the group is organised on a worldwide basis into the following business segments:

General business

General business provides insurance cover for risks associated mainly with property, accident, motor and liability, such as public and employers' liability.

Long term business

Long term business comprises life assurance, annuity and pension business, mortgage and equity release business.

Other

This includes activities that are not related to the core business segments plus segments that are not reportable due to their immateriality, together with inter-segment eliminations and other reconciling items.

Inter-segment transfers or transactions are entered into under normal commercial terms and conditions that would also be available to unrelated third parties.

Segment assets and liabilities comprise the group's operating assets and liabilities. Assets and liabilities relating to insurance and investment contracts are shown separately from other segment assets and liabilities.

Capital expenditure comprises additions to property, plant and equipment and intangible assets.

The analysis of the results, assets, liabilities and capital expenditure by segment is shown on the next page.

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

5 Segment information (continued)

2006	General business £000	Long term business £000	Other £000	Group £000
Revenue				
Gross written premiums	358,283	45,033	-	403,316
Outward reinsurance premiums	(119,980)	(1,113)	-	(121,093)
Net change in provision for unearned premiums	(4,170)	-	-	(4,170)
Net earned premiums	234,133	43,920	-	278,053
Fees and commission income	34,684	1,019	59	35,762
Net investment return	46,126	34,063	13,854	94,043
Total revenue	314,943	79,002	13,913	407,858
Expenses				
Claims and change in insurance liabilities	(179,521)	(52,444)	-	(231,965)
Reinsurance recoveries	49,577	541	-	50,118
Fees, commissions and other acquisition costs	(63,814)	(3,301)	(2,388)	(69,503)
Other operating and administrative expenses	(49,366)	(2,733)	(1,565)	(53,664)
Change in provisions for investment contract liabilities	-	(8,865)	-	(8,865)
Change in net asset value attributable to unitholders	-	-	(7,828)	(7,828)
Total operating expenses	(243,124)	(66,802)	(11,781)	(321,707)
Operating profit	71,819	12,200	2,132	86,151
Finance costs	(298)	(343)	-	(641)
Transfers to the unallocated divisible surplus	-	(8,399)	-	(8,399)
Profit before tax	71,521	3,458	2,132	77,111
Tax expense	(21,107)	(1,709)	274	(22,542)
Profit attributable to equity holders of the parent	50,414	1,749	2,406	54,569
<i>Included in other operating and administrative expenses are:</i>				
Depreciation	1,720	71	-	1,791
Amortisation	1,126	178	-	1,304
Segment assets				
Reinsurers' share of contract provisions	158,773	2,000	-	160,773
Deferred acquisition costs	27,912	1,565	-	29,477
Other assets	818,316	361,296	90,541	1,270,153
Total assets	1,005,001	364,861	90,541	1,460,403
Segment liabilities				
Insurance contract provisions	587,088	243,298	-	830,386
Investment contract liabilities	-	56,214	-	56,214
Unallocated divisible surplus	-	38,105	-	38,105
Other liabilities	116,603	27,244	46,842	190,689
Total liabilities	703,691	364,861	46,842	1,115,394
Capital expenditure	5,221	-	-	5,221

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

5 Segment information (continued)

2005	General business £000	Long term business £000	Other £000	Group £000
Revenue				
Gross written premiums	346,634	15,052	-	361,686
Outward reinsurance premiums	(117,536)	(853)	-	(118,389)
Net change in provision for unearned premiums	(1,788)	-	-	(1,788)
Net earned premiums	227,310	14,199	-	241,509
Fees and commission income	37,503	690	86	38,279
Net investment return	56,199	39,394	12,971	108,564
Total revenue	321,012	54,283	13,057	388,352
Expenses				
Claims and change in insurance liabilities	(159,627)	(20,625)	-	(180,252)
Reinsurance recoveries	35,747	790	-	36,537
Fees, commissions and other acquisition costs	(61,318)	(2,791)	(2,121)	(66,230)
Other operating and administrative expenses	(42,553)	(2,531)	(1,615)	(46,699)
Change in provisions for investment contract liabilities	-	(6,992)	-	(6,992)
Change in net asset value attributable to unitholders	-	-	(7,340)	(7,340)
Total operating expenses	(227,751)	(32,149)	(11,076)	(270,976)
Operating profit	93,261	22,134	1,981	117,376
Finance costs	(698)	(67)	-	(765)
Transfers to the unallocated divisible surplus	-	(15,541)	-	(15,541)
Profit before tax	92,563	6,526	1,981	101,070
Tax expense	(26,544)	(1,988)	(529)	(29,061)
Profit attributable to equity holders of the parent	66,019	4,538	1,452	72,009
<i>Included in other operating and administrative expenses are:</i>				
Depreciation	1,346	102	-	1,448
Amortisation	1,864	211	-	2,075
Segment assets				
Reinsurers' share of contract provisions	148,763	1,790	-	150,553
Deferred acquisition costs	27,558	1,563	-	29,121
Other assets	732,598	320,726	73,815	1,127,139
Total assets	908,919	324,079	73,815	1,306,813
Segment liabilities				
Insurance contract provisions	549,462	219,177	-	768,639
Investment contract liabilities	-	48,846	-	48,846
Unallocated divisible surplus	-	29,706	-	29,706
Other liabilities	97,639	26,350	34,123	158,112
Total liabilities	647,101	324,079	34,123	1,005,303
Capital expenditure	4,762	423	-	5,185

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Notes to the Financial Statements

5 Segment information (continued)

(b) Secondary reporting format – geographical segments

The group operates in the following geographical areas:

	2006	2005
	£000	£000
Gross written premiums		
UK	333,349	287,491
Australia and New Zealand	50,941	50,478
Canada	13,906	15,216
Other overseas	5,120	8,501
	403,316	361,686
Total assets		
UK	1,268,091	1,111,008
Australia and New Zealand	116,831	108,628
Canada	52,989	64,986
Other overseas	22,492	22,191
	1,460,403	1,306,813
Capital expenditure		
UK	4,357	4,081
Australia and New Zealand	323	690
Canada	512	414
Other overseas	29	-
	5,221	5,185

Revenues are allocated based on the country in which the insurance contracts are issued. Total assets and capital expenditure are allocated based on where the assets are located.

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Notes to the Financial Statements

6 Net insurance premium revenue

	General business £000	Long term business £000	Total £000
For the year ended 31 December 2006:			
Gross premiums written	358,283	45,033	403,316
Outward reinsurance premiums	(119,980)	(1,113)	(121,093)
Net premiums written	238,303	43,920	282,223
Change in the gross provision for unearned premiums	(6,742)	-	(6,742)
Change in the provision for unearned premiums, reinsurers' share	2,572	-	2,572
Change in the net provision for unearned premiums	(4,170)	-	(4,170)
Earned premiums, net of reinsurance	234,133	43,920	278,053

For the year ended 31 December 2005:

Gross premiums written	346,634	15,052	361,686
Outward reinsurance premiums	(117,536)	(853)	(118,389)
Net premiums written	229,098	14,199	243,297
Change in the gross provision for unearned premiums	(2,598)	-	(2,598)
Change in the provision for unearned premiums, reinsurers' share	810	-	810
Change in the net provision for unearned premiums	(1,788)	-	(1,788)
Earned premiums, net of reinsurance	227,310	14,199	241,509

7 Fee and commission income

	2006 £000	2005 £000
General business reinsurance commissions and profit commission	34,684	37,503
Long term business reinsurance commissions and profit commission	1,019	140
Other fee and commission income	59	636
	35,762	38,279

8 Net investment return

	2006 £000	2005 £000
<i>Investments at fair value through the income statement:</i>		
- equity income	14,568	11,555
- debt income	23,548	21,014
<i>Loans and receivables:</i>		
- interest income	2,324	2,396
<i>Other investments:</i>		
- rental income	1,592	1,834
- cash and cash equivalents income	4,343	8,485
- other income received	1,667	1,878
Investment income	48,042	47,162
Fair value gains on investments at fair value through the income statement	42,040	57,512
Fair value gains on investment property	3,961	3,890
Net investment return	94,043	108,564

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

9 Claims and change in insurance liabilities and reinsurance recoveries

	General business £000	Long term business £000	Total £000
For the year ended 31 December 2006:			
Gross claims paid	139,092	28,323	167,415
Gross change in the provision for claims	40,429	2,453	42,882
Gross change in long term business provisions	-	21,668	21,668
Claims and change in insurance liabilities	179,521	52,444	231,965
Reinsurers' share of claims paid	(39,784)	(332)	(40,116)
Reinsurers' share of change in the provision for claims	(9,793)	(84)	(9,877)
Reinsurers' share of change in long term business provisions	-	(125)	(125)
Reinsurance recoveries	(49,577)	(541)	(50,118)
Claims and change in insurance liabilities, net of reinsurance	129,944	51,903	181,847
For the year ended 31 December 2005:			
Gross claims paid	144,203	23,224	167,427
Gross change in the provision for claims	15,424	(147)	15,277
Gross change in long term business provisions	-	(2,452)	(2,452)
Claims and change in insurance liabilities	159,627	20,625	180,252
Reinsurers' share of claims paid	(41,814)	(235)	(42,049)
Reinsurers' share of change in the provision for claims	6,067	(57)	6,010
Reinsurers' share of change in long term business provisions	-	(498)	(498)
Reinsurance recoveries	(35,747)	(790)	(36,537)
Claims and change in insurance liabilities, net of reinsurance	123,880	19,835	143,715

10 Fees, commissions and other acquisition costs

	2006 £000	2005 £000
Fees paid	266	-
Commission paid	47,796	46,816
Change in deferred acquisition costs	(930)	(14)
Other acquisition costs	22,371	19,428
	69,503	66,230

11 Operating profit

	2006 £000	2005 £000
Operating profit has been arrived at after charging/(crediting):		
Net foreign exchange losses/(gains)	4,049	(1,821)
Depreciation of property, plant and equipment	1,791	1,448
Amortisation of intangible assets	1,304	2,075
Increase in fair value of investment property	(3,961)	(3,890)
Employee benefits expense	45,220	39,784
Operating lease rentals	2,723	2,467
Auditors' remuneration:		
Fees payable to the company's auditor for the audit of the company's annual accounts	197	366
Fees payable to the company's auditor and its associates for other services:		
The audit of the company's subsidiaries, pursuant to legislation	202	213
Other services pursuant to legislation	238	308
Tax services	8	74
Corporate finance services	42	-
All other services	42	21

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

12 Employee information

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

	2006		2005	
	General business	Long term business	General business	Long term business
	No.	No.	No.	No.
<i>Group</i>				
United Kingdom	807	70	784	71
Australia and New Zealand	126	-	114	-
Canada	55	-	55	-
Republic of Ireland	17	-	17	-
	1,005	70	970	71
<i>Parent</i>				
United Kingdom	731	70	708	71
Canada	55	-	55	-
Republic of Ireland	17	-	17	-
	803	70	780	71

	2006		2005	
	Group	Parent	Group	Parent
	£000	£000	£000	£000
Wages and salaries	35,054	29,734	32,549	27,641
Social security costs	2,868	2,635	2,527	2,313
Pension costs - defined contribution plans	533	165	473	150
Pension costs - defined benefit plans	5,245	4,977	3,021	2,899
Other post-employment benefits	1,520	1,520	1,214	1,214
	45,220	39,031	39,784	34,217

13 Remuneration of key management personnel

The remuneration of the directors (including non-executive directors), who are the key management personnel of the group, is set out in aggregate below:

	2006	2005
	£000	£000
Salaries and other short-term employee benefits	1,119	1,140
Post-employment benefits	29	129
	1,148	1,269

Highest paid director	- emoluments	463	348
	- accrued pension benefit	130	123
	- accrued lump sum entitlement	390	368

Chairman's fees	61	61
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Emoluments of the highest paid director include an ex gratia bonus of £100,000 awarded by the board to Mr G. V. Doswell in recognition of his service and contribution on his retirement from the company.

Three directors (2005: three) who were employed by Ecclesiastical Insurance Office plc, were members of the group's defined benefit pension scheme during the year. No directors (2005: nil) were members of a defined contribution scheme during the year.

In addition two directors (2005: one) received ex-gratia payments totalling £31,500 (2005: £12,500) during the year.

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

14 Finance costs	2006	2005
	£000	£000
Interest expense:		
- dividend on redeemable preference shares	-	150
- finance leases	151	157
- other interest paid	490	40
Premium on redesignation of redeemable preference shares	-	418
	641	765

15 Tax expense	2006	2005
	£000	£000
Current tax		
- current year	16,290	17,468
- prior years	(452)	(506)
Deferred tax		
- temporary differences	6,700	12,537
- prior years	4	(438)
Tax expense	22,542	29,061

Tax on the group's profit before tax differs from the United Kingdom standard rate of corporation tax for the reasons set out in the following reconciliation:

	2006	2005
	£000	£000
Profit before tax	77,111	101,070
Tax calculated at the UK standard rate of tax of 30% (2005: 30%)	23,133	30,321
<i>Factors affecting charge for the year:</i>		
Claims reserves interest adjustment	206	457
Expenses not deductible for tax purposes	374	250
Non-taxable franked investment income	(1,311)	(1,149)
Life insurance and other tax paid at non-standard rates	1,220	(130)
Tax losses for which no deferred income tax asset was recognised	-	145
Other items	(632)	111
Adjustments to tax charge in respect of prior periods	(448)	(944)
Tax expense	22,542	29,061

Tax on fair value gains on owner occupied property of £230,000 (2005: £25,000) and tax relief on charitable grants of £2,400,000 (2005: £1,605,000) is taken directly to equity.

16 Appropriations	2006	2005
	£000	£000
Amounts recognised as distributions to equity holders in the period:		
<i>Dividends</i>		
Interim dividend on ordinary shares of 0.356p (2005: 0.292p) per share	500	410
Non-cumulative irredeemable preference share dividend	5,553	4,797
	6,053	5,207
<i>Charitable grants</i>		
Gross charitable grants to the ultimate parent company, Allchurches Trust Limited	8,000	5,350
Tax relief	(2,400)	(1,605)
Net appropriation for the year	5,600	3,745

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

17 Goodwill and other intangible assets

	Goodwill £000	Computer software £000	Total £000
<i>Group</i>			
Cost:			
At 1 January 2006	2,097	17,293	19,390
Additions	-	2,062	2,062
Exchange differences	-	(131)	(131)
Disposals	-	(1,005)	(1,005)
At 31 December 2006	2,097	18,219	20,316
Amortisation:			
At 1 January 2006	-	14,680	14,680
Provided in the year	-	1,304	1,304
Exchange differences	-	(59)	(59)
Disposals	-	(1,005)	(1,005)
At 31 December 2006	-	14,920	14,920
Net book value at 31 December 2006	2,097	3,299	5,396
Cost:			
At 1 January 2005	2,097	16,091	18,188
Additions	-	1,283	1,283
Exchange differences	-	57	57
Disposals	-	(138)	(138)
At 31 December 2005	2,097	17,293	19,390
Amortisation:			
At 1 January 2005	-	12,675	12,675
Provided in the year	-	2,075	2,075
Exchange differences	-	35	35
Disposals	-	(105)	(105)
At 31 December 2005	-	14,680	14,680
Net book value at 31 December 2005	2,097	2,613	4,710

Goodwill arose on the acquisition of a subsidiary undertaking. The recoverable amount, determined on a fair value less cost to sell calculation using comparable observable market prices indicates no impairment in either year.

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

17 Goodwill and other intangible assets (continued)

**Computer
software
£000**

Parent

Cost:

At 1 January 2006

14,335

Additions

1,827

Exchange differences

(55)

Disposals

(244)

At 31 December 2006

15,863

Amortisation:

At 1 January 2006

12,689

Provided in the year

857

Exchange differences

(19)

Disposals

(244)

At 31 December 2006

13,283

Net book value at 31 December 2006

2,580

Cost:

At 1 January 2005

13,833

Additions

617

Exchange differences

23

Disposals

(138)

At 31 December 2005

14,335

Amortisation:

At 1 January 2005

11,084

Provided in the year

1,694

Exchange differences

16

Disposals

(105)

At 31 December 2005

12,689

Net book value at 31 December 2005

1,646

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

18 Deferred acquisition costs

	2006		2005	
	Group £000	Parent £000	Group £000	Parent £000
At 1 January	29,121	21,396	28,601	21,302
Increase in the period	28,068	21,990	27,499	21,092
Release in the period	(27,138)	(21,016)	(27,485)	(21,351)
Exchange differences	(574)	(322)	506	353
At 31 December	29,477	22,048	29,121	21,396
Current	27,785	21,764	27,466	21,147
Non-current	1,692	284	1,655	249

19 Pension asset and retirement benefit obligations

Defined benefit pension plans

The group's main scheme is a non-contributory defined benefit scheme for UK employees. The assets of the scheme are held separately from those of the group by the trustees of the Ecclesiastical Insurance Office plc Staff Retirement Benefit Fund. Pension costs for this scheme are determined, on the basis of triennial valuations, by an independent qualified actuary using the projected unit credit method. The most recent valuation was at 31 December 2004. The scheme is registered with the Pension Schemes Registry.

Pension liabilities of the Canadian branch are dealt with by payment to a Canadian Trust Fund, and pension liabilities for the Republic of Ireland branch are dealt with by payment to an Irish life office.

The Ansvar subsidiaries operate separate schemes to the main group scheme. In the UK Ansvar operates a non-contributory defined benefit scheme, the contributions to which are determined with the advice of independent qualified actuaries on the basis of triennial valuations. In Australia, Ansvar Insurance operates, through an AMP Masterplan, a defined contribution plan that complies with the Superannuation Industry (Supervision) Act, 1993.

	2006		2005	
	Group £000	Parent £000	Group £000	Parent £000
The amounts recognised in the balance sheet are determined as follows:				
Present value of funded obligations	(151,433)	(145,686)	(146,258)	(140,565)
Fair value of plan assets	172,365	165,823	148,166	142,329
	20,932	20,137	1,908	1,764
Unrecognised actuarial (gains)/losses	(2,651)	(2,918)	15,408	14,616
Net asset in the balance sheet	18,281	17,219	17,316	16,380

Movements in the net asset recognised in the balance sheet are as follows:

At 1 January	17,316	16,380	12,471	12,275
Exchange differences	(9)	(9)	(1)	(1)
Total expense charged in the income statement	(5,245)	(4,977)	(3,021)	(2,899)
Contributions paid	6,219	5,825	7,867	7,005
At 31 December	18,281	17,219	17,316	16,380

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

19 Pension asset and retirement benefit obligations (continued)

	2006		2005	
	Group £000	Parent £000	Group £000	Parent £000
The amounts recognised in the income statement are as follows:				
Current service cost	8,110	7,742	5,497	5,286
Interest cost	6,881	6,616	5,770	5,537
Expected return on plan assets	(9,856)	(9,481)	(8,352)	(8,030)
Net actuarial losses recognised during the year	27	17	-	-
Past service cost	83	83	106	106
Total, included in employee benefits expense	5,245	4,977	3,021	2,899

The actual return on pension plan assets was £21,027,000 (2005: £22,585,000).

The principal actuarial assumptions at the balance sheet date (expressed as weighted averages) were as follows:

	2006	2005
Discount rate	5.10%	4.75%
Inflation	3.10%	3.00%
Expected return on plan assets	6.58%	6.82%
Future salary increases	4.60%	4.50%
Future pension increases	3.10%	3.00%

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

Mortality rate

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

	2006	2005
Male	19.0	19.0
Female	21.9	21.9

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

	2006	2005
Male	20.5	20.5
Female	23.4	23.4

Plan assets are comprised as follows:

	2006		2005	
	Group £000	Parent £000	Group £000	Parent £000
Equities	107,703	103,272	90,765	87,771
Bonds	38,432	36,546	36,001	34,344
Cash	13,796	13,571	10,468	9,771
Other	12,434	12,434	10,932	10,443
	172,365	165,823	148,166	142,329

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

19 Pension asset and retirement benefit obligations (continued)

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

	2006		2005	
	Group £000	Parent £000	Group £000	Parent £000
<i>Scheme assets</i>				
As at 1 January	148,166	142,329	120,770	116,211
Pension benefits paid and payable	(2,995)	(2,782)	(3,060)	(2,851)
Contributions paid	6,219	5,825	7,867	7,005
Expected return on scheme assets	9,856	9,481	8,352	8,030
Actuarial gains	11,171	11,022	14,233	13,930
Exchange differences	(52)	(52)	4	4
As at 31 December	172,365	165,823	148,166	142,329
<i>Defined benefit obligation</i>				
As at 1 January	146,258	140,565	111,400	106,852
Current service cost	8,110	7,742	5,497	5,286
Past service cost	83	83	106	106
Pension benefits paid and payable	(2,995)	(2,782)	(3,060)	(2,851)
Interest cost	6,881	6,616	5,770	5,537
Actuarial (gains)/losses	(6,851)	(6,485)	26,545	25,635
Exchange differences	(53)	(53)	-	-
As at 31 December	151,433	145,686	146,258	140,565

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

19 Pension asset and retirement benefit obligations (continued)

History of group experience gains and losses

	2006	2005	2004	2003
	£000	£000	£000	£000
Present value of defined benefit obligations	(151,433)	(146,258)	(111,400)	(94,676)
Fair value of scheme assets	172,365	148,166	120,770	100,961
Surplus	20,932	1,908	9,370	6,285
Experience adjustments on scheme liabilities	(1,472)	(1,780)	3,470	n/a
Experience adjustments on scheme assets	11,171	14,233	5,496	n/a

The contribution expected to be paid by the group during the year ended 31 December 2007 is £5.8 million.

Post-employment medical benefits

The parent operates a post employment medical benefit scheme. The method of accounting, assumptions and the frequency of valuation are similar to those used for the defined benefit pension scheme.

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

	2006	2005
	£000	£000
Present value of unfunded obligations and net obligations in the balance sheet	(8,506)	(7,103)

Movements in the net obligations recognised in the balance sheet are as follows:

At 1 January	(7,103)	(5,986)
Total expense charged in the income statement	(1,520)	(1,214)
Contributions paid	117	97
At 31 December	(8,506)	(7,103)

The amounts recognised in the income statement are as follows:

Current service cost	878	748
Interest cost	337	314
Net actuarial losses/(gains) recognised during the year	305	152
Total, included in employee benefits expense	1,520	1,214

The main actuarial assumption is a long term increase in medical costs of 8.0% (2005: £7.5%)

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

	Increase	Decrease
	£000	£000
Effect on the aggregate of the current service cost and interest cost	475	(339)
Effect on the medical benefit obligation	2,115	(1,595)

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

20 Property, plant and equipment

<i>Group</i>	Land and buildings £000	Motor vehicles £000	Furniture, fittings and equipment £000	Computer equipment £000	Total £000
Cost or valuation:					
At 1 January 2006	3,511	2,754	4,543	4,847	15,655
Additions	279	890	620	1,370	3,159
Exchange differences	(17)	(11)	(107)	(75)	(210)
Disposals	-	(910)	(303)	(1,320)	(2,533)
Revaluation increase	610	-	-	-	610
At 31 December 2006	4,383	2,723	4,753	4,822	16,681
Depreciation:					
At 1 January 2006	-	970	2,638	3,000	6,608
Provided in the year	-	505	467	819	1,791
Exchange differences	-	(6)	(30)	(43)	(79)
Disposals	-	(567)	(303)	(1,302)	(2,172)
At 31 December 2006	-	902	2,772	2,474	6,148
Net book value at 31 December 2006	4,383	1,821	1,981	2,348	10,533
Cost or valuation:					
At 1 January 2005	3,016	2,820	3,410	4,121	13,367
Additions	860	1,011	1,215	816	3,902
Exchange differences	12	10	84	54	160
Disposals	-	(1,087)	(166)	(144)	(1,397)
Transfer to investment property	(485)	-	-	-	(485)
Revaluation increase	108	-	-	-	108
At 31 December 2005	3,511	2,754	4,543	4,847	15,655
Depreciation:					
At 1 January 2005	-	1,080	2,426	2,522	6,028
Provided in the year	-	542	327	579	1,448
Exchange differences	-	5	23	30	58
Disposals	-	(657)	(138)	(131)	(926)
At 31 December 2005	-	970	2,638	3,000	6,608
Net book value at 31 December 2005	3,511	1,784	1,905	1,847	9,047

The group's land and buildings were revalued at 31 December 2006. Valuations were carried out by Cluttons, an external firm of Chartered Surveyors, and were made on the basis of open market value. The revaluation surplus net of applicable deferred taxes was credited to the revaluation reserve in shareholders' equity.

The value of land and buildings on a historical cost basis is £2,985,000 (2005: £2,777,000).

Depreciation expense has been charged in other operating and administrative expenses.

Included within net book value of motor vehicles is £1,636,000 (2005: £1,387,000) in respect of assets held under finance leases.

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

20 Property, plant and equipment (continued)

<i>Parent</i>	Land and buildings £000	Motor vehicles £000	Furniture, fittings and equipment £000	Computer equipment £000	Total £000
Cost or valuation:					
At 1 January 2006	1,850	1,868	3,081	3,126	9,925
Additions	-	826	402	1,269	2,497
Exchange differences	-	-	(54)	(10)	(64)
Disposals	-	(577)	(291)	(1,193)	(2,061)
Transfer to investment property	-	-	-	-	-
Revaluation increase	20	-	-	-	20
At 31 December 2006	1,870	2,117	3,138	3,192	10,317
Depreciation:					
At 1 January 2006	-	622	1,866	1,876	4,364
Provided in the year	-	364	313	623	1,300
Exchange differences	-	-	(9)	(7)	(16)
Disposals	-	(366)	(291)	(1,193)	(1,850)
At 31 December 2006	-	620	1,879	1,299	3,798
Net book value at 31 December 2006	1,870	1,497	1,259	1,893	6,519
Cost or valuation:					
At 1 January 2005	1,465	1,864	2,060	2,593	7,982
Additions	860	743	1,131	525	3,259
Exchange differences	-	(1)	46	9	54
Disposals	-	(738)	(156)	(1)	(895)
Transfer to investment property	(485)	-	-	-	(485)
Revaluation increase	10	-	-	-	10
At 31 December 2005	1,850	1,868	3,081	3,126	9,925
Depreciation:					
At 1 January 2005	-	729	1,812	1,501	4,042
Provided in the year	-	345	174	370	889
Exchange differences	-	-	9	6	15
Disposals	-	(452)	(129)	(1)	(582)
At 31 December 2005	-	622	1,866	1,876	4,364
Net book value at 31 December 2005	1,850	1,246	1,215	1,250	5,561

The company's land and buildings were revalued at 31 December 2006 by Cluttons, an external firm of Chartered Surveyors. Valuations were made on the basis of open market value. The revaluation surplus net of applicable deferred taxes was credited to the revaluation reserve in shareholders' equity.

The value of land and buildings on a historical cost basis is £1,601,000 (2005: £1,601,000).

Depreciation expense has been charged in other operating and administrative expenses.

Included within net book value of motor vehicles is £1,477,000 (2005: £1,219,000) in respect of assets held under finance leases.

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

21 Investment property	2006		2005	
	Group £000	Parent £000	Group £000	Parent £000
Net book value at 1 January	29,959	27,290	22,643	21,673
Additions	4,358	2,115	2,941	1,470
Disposals	(2,071)	(2,071)	-	-
Transfer from property, plant and equipment	-	-	485	485
Fair value gains	3,961	3,917	3,890	3,662
Net book value at 31 December	36,207	31,251	29,959	27,290

The group's investment properties were last revalued at 31 December 2006 by Cluttons, an external firm of Chartered Surveyors. Valuations were made on the basis of open market value.

Investment properties are held for long term capital appreciation rather than short term sale. Rental income arising from the investment properties owned by the group amounted to £1,592,000 (2005: £1,834,000) and is included in net investment return. Other operating and administrative expenses include £211,000 (2005: £214,000) relating to investment property. Rental income in respect of parent investment properties amounted to £1,463,000 (2005: £1,698,000) and expenses were £200,000 (2005: £207,000).

22 Financial investments	2006		2005	
	Group £000	Parent £000	Group £000	Parent £000
Financial investments summarised by measurement category are as follows:				
<i>Financial investments at fair value through income statement</i>				
Equity securities:				
- listed	395,074	178,697	339,849	150,213
- unlisted	16,337	16,187	16,297	16,297
Debt securities:				
- government bonds	285,540	146,800	288,908	160,224
- listed	147,134	59,035	139,441	55,037
- unlisted	706	353	623	312
	844,791	401,072	785,118	382,083
<i>Loans and receivables</i>				
Loans secured by mortgages	32,188	240	29,431	338
Other loans	117	29	146	42
	32,305	269	29,577	380
<i>Investments in group undertakings</i>				
Shares in fellow subsidiaries	250	250	250	250
Shares in subsidiary undertakings	-	22,173	-	22,373
	250	22,423	250	22,623
Total financial investments	877,346	423,764	814,945	405,086
<i>Movement in investments in subsidiary undertakings</i>				
At 1 January	-	22,373	-	22,373
Disposal	-	(200)	-	-
At 31 December	-	22,173	-	22,373

All investments in group undertakings are unlisted.

Included in financial investments of the group are options with a fair value of £803,000 (2005: £140,000), that are classified as held for trading. All other financial investments are non-current. Equity and debt securities are designated by the group to be measured at fair value through the income statement. The directors consider that the carrying value of loans and receivables approximates to their fair value.

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

23 Other assets	2006		2005	
	Group £000	Parent £000	Group £000	Parent £000
<i>Receivables arising from insurance and reinsurance contracts:</i>				
- due from contract holders	18,047	14,747	16,784	14,196
- due from agents, brokers and intermediaries	44,574	27,074	36,667	18,837
- due from reinsurers	8,358	8,141	12,866	12,885
<i>Other receivables:</i>				
- accrued interest and rent	7,344	3,568	7,014	3,818
- other prepayments and accrued income	3,570	3,110	2,700	1,414
- amounts owed by related parties	889	22,026	930	16,032
- other debtors	2,757	450	2,291	476
	85,539	79,116	79,252	67,658

Other assets are all current, and due to their short term nature, the above carrying amounts are a reasonable approximation of fair value.

The group has recognised a charge of £29,000 (2005: credit of £881,000) in other operating and administrative expenses in the income statement for the impairment of its trade receivables during the year. The company has recognised a credit of £39,000 (2005: £649,000).

24 Cash and cash equivalents	2006		2005	
	Group £000	Parent £000	Group £000	Parent £000
Cash at bank and in hand	75,947	29,127	50,889	28,996
Short term bank deposits	158,478	124,421	118,412	83,805
	234,425	153,548	169,301	112,801

25 Called up share capital	Authorised		Issued, allotted and fully paid	
	2006 '000s	2005 '000s	2006 £000	2005 £000
Ordinary shares of 10p each	150,000	150,000	14,027	14,027
8.625% Non-Cumulative Irredeemable Preference shares of £1 each	68,950	68,950	66,450	62,950
Unclassified shares of £1 each	300	300	-	-
	219,250	219,250	80,477	76,977

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

25 Called up share capital (continued)

Movements in the number of shares in issue during the year were as follows:

	2006 '000s	2005 '000s
<i>Ordinary shares of 10p each</i>		
At 1 January and 31 December	<u>140,270</u>	<u>140,270</u>
<i>8.625% Non-Cumulative Irredeemable Preference shares of £1 each</i>		
At 1 January	62,950	41,250
Shares issued	3,500	19,000
Redesignation of Second Preference shares	-	2,700
At 31 December	<u>66,450</u>	<u>62,950</u>

On 27 July 2006 the issued share capital of the company was increased by the allotment of 3,500,000 8.625% Non-Cumulative Irredeemable Preference shares of £1 each.

On winding up, the assets of the company remaining after payment of its liabilities are to be applied to holders of the Irredeemable Preference shares in repaying the nominal capital sum paid up on the shares and an amount equal to all arrears of accrued and unpaid dividends up to the date of the commencement of the winding up. The residual interest in the assets of the company after deducting all liabilities belongs to the Ordinary shareholders.

Holders of the Irredeemable Preference shares are not entitled to receive notice of, or to attend or vote at, any general meeting of the company unless at the time of the notice convening such meeting, the dividend on such shares which is most recently payable 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.

26 Share premium account

	2006 £000	2005 £000
At 1 January	3,792	352
Premium on shares issued	840	3,440
At 31 December	<u>4,632</u>	<u>3,792</u>

The premium on shares issued in the year is shown net of transaction costs of £121,000 (2005: £319,000).

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

27 Retained earnings and other reserves

	Equalisation reserve £000	Revaluation reserve £000	Translation reserve £000	General reserve £000	Retained earnings £000	Total £000
<i>Group</i>						
At 1 January 2005	17,613	827	(24)	10,000	124,701	153,117
Gross fair value gains on property	-	108	-	-	-	108
Tax on fair value gains on property	-	(25)	-	-	-	(25)
Reserve transfers	3,177	-	-	(10,000)	6,823	-
Currency translation differences	-	-	3,769	-	-	3,769
Premium on redesignation of preference shares	-	-	-	-	715	715
Profit for the period	-	-	-	-	72,009	72,009
Net charitable grant to ultimate parent undertaking	-	-	-	-	(3,745)	(3,745)
Dividends payable (see note 16)	-	-	-	-	(5,207)	(5,207)
At 31 December 2005	20,790	910	3,745	-	195,296	220,741
Gross fair value gains on property	-	789	-	-	-	789
Tax on fair value gains on property	-	(230)	-	-	-	(230)
Reserve transfers	1,932	-	5	-	(1,937)	-
Currency translation differences	-	-	(4,316)	-	-	(4,316)
Profit for the period	-	-	-	-	54,569	54,569
Net charitable grant to ultimate parent undertaking	-	-	-	-	(5,600)	(5,600)
Dividends payable (see note 16)	-	-	-	-	(6,053)	(6,053)
At 31 December 2006	22,722	1,469	(566)	-	236,275	259,900

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27 Retained earnings and other reserves (continued)

	Equalisation reserve £000	Revaluation reserve £000	Translation reserve £000	General reserve £000	Retained earnings £000	Total £000
<i>Parent</i>						
At 1 January 2005	17,003	418	119	10,000	86,225	113,765
Gross fair value gains on property	-	10	-	-	-	10
Tax on fair value gains on property	-	(3)	-	-	-	(3)
Reserve transfers	3,027	-	-	(10,000)	6,973	-
Currency translation differences	-	-	2,833	-	-	2,833
Premium on redesignation of preference shares	-	-	-	-	715	715
Profit for the period	-	-	-	-	56,436	56,436
Net charitable grant to ultimate parent undertaking	-	-	-	-	(3,745)	(3,745)
Dividends payable (see note 16)	-	-	-	-	(5,207)	(5,207)
At 31 December 2005	20,030	425	2,952	-	141,397	164,804
Gross fair value gains on property	-	199	-	-	-	199
Tax on fair value gains on property	-	(69)	-	-	-	(69)
Reserve transfers	1,788	-	-	-	(1,788)	-
Currency translation differences	-	-	(2,722)	-	-	(2,722)
Profit for the period	-	-	-	-	45,256	45,256
Net charitable grant to ultimate parent undertaking	-	-	-	-	(5,600)	(5,600)
Dividends payable (see note 16)	-	-	-	-	(6,053)	(6,053)
At 31 December 2006	21,818	555	230	-	173,212	195,815

The equalisation reserve is not distributable and must be kept in compliance with the solvency capital regulations.

The revaluation reserve represents cumulative net fair value gains on owner occupied property.

The translation reserve arises on consolidation of the group's foreign operations.

The general reserve was originally set up to fund the redemption of redeemable preference shares. As all such preference shares have been redesignated as irredeemables, the general reserve has been transferred to retained earnings. Retained earnings represents the amount available for distribution to equity holders.

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

28 Statement of changes in equity

	2006		2005	
	Group £000	Parent £000	Group £000	Parent £000
Opening shareholders' equity	301,510	245,573	208,746	169,394
Total recognised income and expense for the year	50,812	42,664	75,861	59,276
Dividends payable	(6,053)	(6,053)	(5,207)	(5,207)
Net charitable grant to ultimate parent undertaking	(5,600)	(5,600)	(3,745)	(3,745)
Redesignation of preference share liabilities into share capital	-	-	2,700	2,700
Premium on redesignation of preference shares	-	-	715	715
Net proceeds from the issue of shares	4,340	4,340	22,440	22,440
Closing shareholders' equity	345,009	280,924	301,510	245,573

29 Insurance liabilities and reinsurance assets

	2006		2005	
	Group £000	Parent £000	Group £000	Parent £000
Gross				
Claims outstanding	420,805	352,435	384,460	327,922
Unearned premiums	170,265	131,344	166,531	126,366
Long term business provision	239,316	-	217,648	-
Total gross insurance liabilities	830,386	483,779	768,639	454,288
Recoverable from reinsurers				
Claims outstanding	111,781	95,652	103,566	91,095
Unearned premiums	47,184	36,832	45,304	34,151
Long term business provision	1,808	-	1,683	-
Total reinsurers' share of insurance liabilities	160,773	132,484	150,553	125,246
Net				
Claims outstanding	309,024	256,783	280,894	236,827
Unearned premiums	123,081	94,512	121,227	92,215
Long term business provision	237,508	-	215,965	-
Total net insurance liabilities	669,613	351,295	618,086	329,042
Gross insurance liabilities				
Current	329,269	253,121	304,018	223,487
Non-current	501,117	230,658	464,621	230,801
Reinsurance assets				
Current	87,004	69,643	76,117	60,975
Non-current	73,769	62,841	74,436	64,271

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Notes to the Financial Statements

29 Insurance liabilities and reinsurance assets (continued)

(a) General business insurance contracts

(i) Reserving methodology

Reserving for non-life insurance claims is a complex process and the group adopts recognised actuarial methods, and where appropriate, other calculations and statistical analysis. Actuarial methods used include chain ladder, the Bornhuetter-Ferguson and average cost methods such as Fisher Lange.

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

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

(ii) Calculation of prudence and uncertainty margins

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

(iii) Calculation of special provisions for latent claims

The group adopts commonly used industry methods including those based on claims frequency and severity and benchmarking.

(iv) Assumptions

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

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

(v) Change in assumptions

The reserves for UK liability classes continue to reflect the sources of uncertainty referred to earlier in the notes. The special provisions for very late reported or latent claims have been increased. The effect has been to increase gross reserves by £8,893,000 (£13,345,000 net of reinsurance). The higher increase net of reinsurance reflects the commutation of reinsurance assets resulting from reinsurer initiatives.

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Notes to the Financial Statements

29 Insurance liabilities and reinsurance assets (continued)

(vi) Sensitivity of results

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

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

		2006		2005	
		Gross	Net	Gross	Net
		£000	£000	£000	£000
Liability	- UK	16,500	13,800	14,900	12,100
	- Overseas	5,700	4,600	5,800	4,500
Property	- UK	6,900	3,900	5,400	3,500
	- Overseas	4,500	2,200	4,900	2,300
Motor	- UK	3,000	1,800	2,300	1,700
	- Overseas	200	100	200	100

(vii) Claims development tables

The nature of liability classes of business is that claims may take a number of years to settle and before the final liability is known. The tables below show the development of the estimate of ultimate net claims cost for these classes across all territories.

Group	2001 £000	2002 £000	2003 £000	2004 £000	2005 £000	2006 £000	Total £000
Estimate of ultimate claims:							
At end of year	32,882	34,480	34,483	35,349	39,528	41,007	
One year later	32,098	29,269	30,253	34,867	32,780		
Two years later	27,680	26,140	29,791	29,447			
Three years later	26,476	24,934	28,897				
Four years later	24,423	21,787					
Five years later	23,011						
Current estimate of ultimate claims	23,011	21,787	28,897	29,447	32,780	41,007	176,929
Cumulative payments to date	(17,991)	(13,266)	(10,070)	(6,062)	(3,193)	(625)	(51,207)
Outstanding liability	5,020	8,521	18,827	23,385	29,587	40,382	125,722
Liability in respect of earlier years							55,606
Total net liability (for liability classes) included in insurance liabilities in the balance sheet							181,328

Parent	2001 £000	2002 £000	2003 £000	2004 £000	2005 £000	2006 £000	Total £000
Estimate of ultimate claims:							
At end of year	28,943	28,770	27,762	28,642	30,653	31,402	
One year later	27,267	23,766	24,478	27,939	25,136		
Two years later	23,587	21,553	24,394	23,170			
Three years later	23,152	20,914	24,521				
Four years later	21,418	18,645					
Five years later	20,574						
Current estimate of ultimate claims	20,574	18,645	24,521	23,170	25,136	31,402	143,448
Cumulative payments to date	(16,307)	(11,831)	(8,716)	(5,401)	(2,786)	(528)	(45,569)
Outstanding liability	4,267	6,814	15,805	17,769	22,350	30,874	97,879
Liability in respect of earlier years							46,774
Total net liability (for liability classes) included in insurance liabilities in the balance sheet							144,653

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Notes to the Financial Statements

29 Insurance liabilities and reinsurance assets (continued)

(b) Long term insurance and group life yearly renewable contracts

(i) Assumptions

The most significant assumptions in determining long term business reserves are as follows:

Mortality

An appropriate base table of standard mortality is chosen depending on the type of contract. For contracts insuring survivorship, an allowance is made for future mortality improvements based on trends identified in the data and in the continuous mortality investigations performed by independent actuarial bodies.

Morbidity

No allowance is made for recovery from disability when setting reserves for claims in payment.

Investment returns

Projected investment returns are based on actual yields for each asset class less an allowance for credit risk. The risk adjusted yields after allowance for tax and investment expenses for the current valuation are:

2006	With-profit	Non-profit
UK & overseas government bonds: non-linked	3.91%	3.94%
UK government: index-linked	n/a	0.68%
Corporate debt instruments	4.13%	3.99%
Equities and equity unit trusts	4.58%	1.77%
Loans secured by mortgages	n/a	6.13%
Cash and deposits	3.26%	3.84%
Land & buildings	3.28%	5.17%
2005	With-profit	Non-profit
UK & overseas government bonds: non-linked	3.27%	3.33%
UK government: index-linked	n/a	0.59%
Corporate debt instruments	3.74%	3.64%
Equities and equity unit trusts	4.47%	1.96%
Loans secured by mortgages	n/a	6.12%
Cash and deposits	2.57%	3.48%
Land & buildings	3.84%	4.77%

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

Renewal expense level and inflation

Both projected and actual expenses have been considered when setting the base renewal expense level. Expense inflation is set with reference to the index-linked UK government bond rates of return, and published figures for earnings inflation, and is assumed to be 4% per annum (2005: 4%).

Tax

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

(ii) Changes in assumptions

Projected investment returns have been revised in line with the changes in the actual yields of the underlying assets. The effect of these changes has been a £4.2 million reduction in liabilities (2005: £3.2 million increase).

In 2005 an additional £1.5 million reserve was set-up to allow for future improvements in longevity for non-profit pension annuities in payment. This additional reserve has now been consolidated into the base reserves. This has caused a net £0.5 million release of reserves.

Expense reserves for non-profit business were strengthened by £2.2 million (2005: £nil) to allow for increases in renewal expenses in 2007 and future years. Reserves for future expense overruns on with-profit business have been strengthened during the year by £1.3 million (2005: £0.9 million) in order to bring them into line with the equivalent regulatory reserve.

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

29 Insurance liabilities and reinsurance assets (continued)

(iii) Sensitivity analysis

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

Variable	Change in variable	Potential increase/ (decrease) in profit	
		2006 £000	2005 £000
Deterioration in annuitant mortality	-10%	2,100	1,500
Improvement in annuitant mortality	+10%	(2,400)	(2,000)
Increase in fixed interest/cash yields	+1%pa	4,200	4,500
Decrease in fixed interest/cash yields	-1%pa	(1,300)	600
Decrease in equity and property values	-10%	200	-
Worsening of base renewal expense level	+10%	(1,800)	(1,700)
Improvement in base renewal expense level	-10%	1,800	1,500

Changes to with-profit liabilities have no direct effect on shareholders' equity.

(iv) Available capital resources

	With-profit life fund £000	Non-profit life fund £000	Share- holders' fund £000	Total life business £000	Other activities £000	Group total £000
2006						
Shareholders' equity	-	15,808	27,375	43,183	301,826	345,009
Unallocated divisible surplus	38,105	-	-	38,105	(28,001)	10,104
Adjustments to assets/liabilities	(1,565)	(2,143)	2,197	(1,511)	(42,218)	(43,729)
Adjustments to actuarial liabilities	-	(4,821)	-	(4,821)	-	(4,821)
Total available capital resources	36,540	8,844	29,572	74,956	231,607	306,563

Policyholder liabilities

- with-profit business	121,156	-	-	121,156
- unit linked business	-	53,184	-	53,184
- other investment business	-	3,031	-	3,031
- other life insurance business	-	116,352	-	116,352
Net actuarial liabilities on balance sheet	121,156	172,567	-	293,723

2005

Shareholders' equity	-	16,560	22,614	39,174	262,336	301,510
Unallocated divisible surplus	29,706	-	-	29,706	(15,078)	14,628
Adjustments to assets/liabilities	(1,562)	(2,267)	2,500	(1,329)	(58,210)	(59,539)
Adjustments to actuarial liabilities	-	(7,140)	-	(7,140)	-	(7,140)
Total available capital resources	28,144	7,153	25,114	60,411	189,048	249,459

Policyholder liabilities

- with-profit business	123,959	-	-	123,959
- unit linked business	-	44,873	-	44,873
- other investment business	-	3,973	-	3,973
- other life insurance business	-	92,006	-	92,006
Net actuarial liabilities on balance sheet	123,959	140,852	-	264,811

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Notes to the Financial Statements

29 Insurance liabilities and reinsurance assets (continued)

Shareholders' equity in the non-profit fund represents the profits generated by this fund not transferred, to date, to the shareholders' fund (2005: also included a £2,500,000 injection of capital). The life shareholders' fund is the balance of shareholder equity in the life business. The movement in the unallocated divisible surplus is analysed in note 31. The adjustments to assets/liabilities relate to both assets and liabilities which are not admissible for FSA solvency purposes. The adjustment for the with-profit fund is the elimination of deferred acquisition costs. The adjustments to the non-profit fund net assets are capitalised computer software and deferred income from investment contracts.

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

The available capital in the non-profit life fund, subject to the regulatory capital requirements of the fund itself, is available to meet requirements elsewhere in the group. The unallocated divisible surplus is not available to meet requirements elsewhere in the group. The capital requirements of the life business are based on the FSA capital requirements.

The group uses both its Individual Capital Assessment and its Individual Capital Guidance, agreed early in 2006, as a tool for determining capital requirements and their sensitivity to various risks. The group manages these risks by means of its underwriting strategy, reinsurance strategy, investment strategy, and management control framework.

(v) Movements in life capital

	With-profit life fund £000	Non-profit life fund £000	Share- holders' fund £000	Total life business £000
2006				
Published capital resources as at 31 December 2005	28,144	7,153	25,114	60,411
Effect of new business	(276)	(5,193)	-	(5,469)
Variance between actual and expected experience	7,735	2,039	1,479	11,253
Effect of changes to valuation interest rates	922	2,200	-	3,122
Effect of reduction in unit renewal expense assumption	-	3,542	-	3,542
Effect of strengthening of expense reserves	-	(2,200)	-	(2,200)
Net effect of changes to annuitant mortality assumptions	-	500	-	500
Effect of other assumption changes	-	231	-	231
Transfers between funds	-	(2,500)	2,500	-
Other movements	15	3,072	479	3,566
Capital resources as at 31 December 2006	36,540	8,844	29,572	74,956

Unit renewal expenses reduced during the year, but this was a consequence of increased business volumes. The increase was due to the new Funeral Plan business. The resulting release of expense reserves is compensated for by additional expense reserves in respect of new business.

Investment returns were higher than expected due to growth in equities.

Fixed interest yields have generally increased. Although this has led to a reduction in the market value of fixed interest assets, it has also led to an increase in valuation interest rate assumptions.

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

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Notes to the Financial Statements

29 Insurance liabilities and reinsurance assets (continued)

(c) Movements in insurance liabilities and reinsurance assets

<i>Group</i>	Gross £000	Reinsurance £000	Net £000
Claims outstanding			
At 1 January 2006	384,460	(103,566)	280,894
Cash paid for claims settled in the year	(167,413)	40,116	(127,297)
Change in liabilities/reinsurance assets:			
- arising from current year claims	221,366	(50,637)	170,729
- arising from prior year claims	(11,071)	644	(10,427)
Exchange differences	(6,537)	1,662	(4,875)
At 31 December 2006	420,805	(111,781)	309,024
Provision for unearned premiums			
At 1 January 2006	166,531	(45,304)	121,227
Increase in the period	170,102	(46,878)	123,224
Release in the period	(163,360)	44,306	(119,054)
Exchange differences	(3,008)	692	(2,316)
At 31 December 2006	170,265	(47,184)	123,081
Long term business provision			
At 1 January 2006	217,648	(1,683)	215,965
Effect of new business during the year	35,623	(1,113)	34,510
Effect of claims during the year	(26,718)	332	(26,386)
Changes in assumptions	(1,219)	-	(1,219)
Change in methodology	663	-	663
Other movements	13,319	656	13,975
At 31 December 2006	239,316	(1,808)	237,508
Claims outstanding			
At 1 January 2005	363,592	(107,776)	255,816
Cash paid for claims settled in the year	(167,427)	42,049	(125,378)
Change in liabilities/reinsurance assets:			
- arising from current year claims	206,354	(45,391)	160,963
- arising from prior year claims	(23,650)	9,301	(14,349)
Exchange differences	5,591	(1,749)	3,842
At 31 December 2005	384,460	(103,566)	280,894
Provision for unearned premiums			
At 1 January 2005	161,474	(44,062)	117,412
Increase in the period	164,834	(44,942)	119,892
Release in the period	(162,236)	44,132	(118,104)
Exchange differences	2,459	(432)	2,027
At 31 December 2005	166,531	(45,304)	121,227
Long term business provision			
At 1 January 2005	220,099	(1,185)	218,914
Effect of new business during the year	10,096	(836)	9,260
Effect of claims during the year	(22,523)	140	(22,383)
Changes in assumptions	5,636	(4)	5,632
Change in methodology	(4,424)	394	(4,030)
Other movements	8,764	(192)	8,572
At 31 December 2005	217,648	(1,683)	215,965

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Notes to the Financial Statements

29 Insurance liabilities and reinsurance assets (continued)

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

<i>Parent</i>	Gross £000	Reinsurance £000	Net £000
Claims outstanding			
At 1 January 2006	327,922	(91,095)	236,827
Cash paid for claims settled in the year	(115,239)	33,357	(81,882)
Change in liabilities/reinsurance assets:			
- arising from current year claims	153,076	(40,567)	112,509
- arising from prior year claims	(9,401)	1,568	(7,833)
Exchange differences	(3,923)	1,085	(2,838)
At 31 December 2006	352,435	(95,652)	256,783
Provision for unearned premiums			
At 1 January 2006	126,366	(34,151)	92,215
Increase in the period	130,760	(36,398)	94,362
Release in the period	(124,671)	33,612	(91,059)
Exchange differences	(1,111)	105	(1,006)
At 31 December 2006	131,344	(36,832)	94,512
Claims outstanding			
At 1 January 2005	309,448	(92,187)	217,261
Cash paid for claims settled in the year	(116,685)	32,741	(83,944)
Change in liabilities/reinsurance assets:			
- arising from current year claims	148,475	(36,394)	112,081
- arising from prior year claims	(17,100)	6,072	(11,028)
Exchange differences	3,784	(1,327)	2,457
At 31 December 2005	327,922	(91,095)	236,827
Provision for unearned premiums			
At 1 January 2005	124,821	(34,401)	90,420
Increase in the period	125,246	(33,966)	91,280
Release in the period	(124,826)	34,254	(90,572)
Exchange differences	1,125	(38)	1,087
At 31 December 2005	126,366	(34,151)	92,215

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

30 Investment contract liabilities

Group investment contract liabilities are financial liabilities at fair value through the income statement.

	2006	2005
	£000	£000
Current	2,110	4,137
Non-current	54,104	44,709
Total	56,214	48,846

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

The amount of the change in the fair value of these liabilities that is not attributable to the change in the underlying assets is a reduction of £1,508,000 (2005: an increase of £67,000).

The maturity value of these financial liabilities is determined by the fair value of the linked assets, at maturity date, or by the fair value of future benefits which will mature. At the maturity date there will be no difference between the carrying amount and the maturity amount.

31 Unallocated divisible surplus

The unallocated divisible surplus in the with-profit fund is calculated as the value of net assets less the insurance liabilities, and is wholly available for allocation to with-profit policyholders. The group does not participate in this surplus. The fair value cannot be measured reliably due to the discretionary nature of these benefits.

The movement in the unallocated divisible surplus during the period can be analysed as follows:

	2006	2005
	£000	£000
At 1 January	29,706	14,164
Net earned premiums	10,654	10,344
Fee and commission income	103	103
Investment income	6,934	7,123
Fair value gains	11,933	15,655
Claims	(20,505)	(12,506)
Change in insurance liability:		
- reversionary bonuses allocated	(3,301)	(2,421)
- other	6,084	1,758
Reinsurance recoveries	19	(3)
Fees, commissions and other acquisition costs	(257)	(156)
Other operating and administrative expenses	(1,118)	(1,052)
Finance costs	(336)	(35)
Tax expense	(1,811)	(3,268)
At 31 December	38,105	29,706

In 2006, profits allocated by the with-profit fund in the form of discretionary benefits amounted to £5,467,000 (2005: £4,083,000).

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Notes to the Financial Statements

32 Finance lease obligations

	2006		2005	
	Group £000	Parent £000	Group £000	Parent £000
Minimum lease obligations payable:				
Within 1 year	706	608	700	551
Within 2 to 5 years	1,188	1,118	1,059	872
	<u>1,894</u>	<u>1,726</u>	<u>1,759</u>	<u>1,423</u>
Less future finance charges	(199)	(191)	(186)	(155)
Present value of finance lease obligations	<u>1,695</u>	<u>1,535</u>	<u>1,573</u>	<u>1,268</u>
The present value of minimum lease obligations payable:				
Within 1 year	232	177	584	456
Within 2 to 5 years	1,463	1,358	989	812
	<u>1,695</u>	<u>1,535</u>	<u>1,573</u>	<u>1,268</u>

Finance lease obligations are effectively secured as the rights to the leased assets revert to the lessor in the event of default. The carrying amount of finance lease obligations equates to fair value.

33 Provisions for other liabilities and charges

	Regulatory levies £000	Restructuring and other provisions £000	Total £000
<i>Group</i>			
At 1 January 2006	4,222	1,200	5,422
Additional provisions	1,897	18	1,915
Used during year	(559)	(100)	(659)
Exchange differences	-	(7)	(7)
At 31 December 2006	<u>5,560</u>	<u>1,111</u>	<u>6,671</u>
Current	5,560	75	5,635
Non-current	-	1,036	1,036
<i>Parent</i>			
At 1 January 2006	3,763	1,100	4,863
Additional provisions	1,702	-	1,702
Used during year	(559)	(100)	(659)
Exchange differences	-	-	-
At 31 December 2006	<u>4,906</u>	<u>1,000</u>	<u>5,906</u>
Current	4,906	75	4,981
Non-current	-	925	925

Regulatory levies

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

Restructuring

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

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

34 Deferred tax

An analysis and reconciliation of the movement of the key components of the net deferred tax liability during the current and prior reporting period is as follows:

	Unrealised gains on investments £000	Net retirement benefit assets £000	Equalisation reserve £000	Other differences £000	Total £000
<i>Group</i>					
At 1 January 2005	24,738	1,924	5,284	(3,204)	28,742
Charged/(credited) to income	10,689	1,073	953	(617)	12,098
Charged to equity	-	-	-	25	25
Exchange differences	(3)	(1)	-	(82)	(86)
At 31 December 2005	35,424	2,996	6,237	(3,878)	40,779
Charged/(credited) to income	6,169	(153)	580	108	6,704
Charged to equity	161	-	-	69	230
Exchange differences	12	-	-	132	144
At 31 December 2006	41,766	2,843	6,817	(3,569)	47,857

	Unrealised gains on investments £000	Net retirement benefit assets £000	Equalisation reserve £000	Other differences £000	Total £000
<i>Parent</i>					
At 1 January 2005	19,271	1,865	5,101	(2,050)	24,187
Charged/(credited) to income	8,464	851	908	(34)	10,189
Charged to equity	-	-	-	3	3
Exchange differences	-	(1)	-	(46)	(47)
At 31 December 2005	27,735	2,715	6,009	(2,127)	34,332
Charged/(credited) to income	5,188	(191)	536	98	5,631
Charged to equity	-	-	-	69	69
Exchange differences	-	-	-	81	81
At 31 December 2006	32,923	2,524	6,545	(1,879)	40,113

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

34 Deferred tax (continued)

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2006		2005	
	Group	Parent	Group	Parent
	£000	£000	£000	£000
Deferred tax liabilities	50,077	40,843	42,259	34,743
Deferred tax assets	(2,220)	(730)	(1,480)	(411)
	<u>47,857</u>	<u>40,113</u>	<u>40,779</u>	<u>34,332</u>

The group has unused tax losses of £23,277,000 (2005: £23,939,000) arising from pension business and capital transactions, which are available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

The aggregate amount of temporary differences associated with undistributed earnings of subsidiaries and branches for which deferred tax liabilities have not been recognised is £88,892,000 (2005: £82,375,000). No liability has been recognised in respect of these differences because the group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

35 Deferred income

	2006		2005	
	Group	Parent	Group	Parent
	£000	£000	£000	£000
Reinsurance commissions receivable	14,482	11,978	14,476	11,624
Investment contract fee income	658	-	711	-
Total	<u>15,140</u>	<u>11,978</u>	<u>15,187</u>	<u>11,624</u>
Current	14,515	11,978	14,512	11,624
Non-current	625	-	675	-

Investment contract fee income is front-end fees received from investment contract holders as a prepayment for asset management and related services. These amounts are non-refundable and are released to income as the services are rendered.

36 Other liabilities

	2006		2005	
	Group	Parent	Group	Parent
	£000	£000	£000	£000
Creditors arising out of direct insurance operations	3,054	604	1,574	679
Creditors arising out of reinsurance operations	19,362	15,308	10,902	7,567
Other creditors	6,788	4,332	8,122	4,713
Amounts owed to related parties	2,803	4,200	24	529
Accruals	9,589	7,721	9,466	7,669
	<u>41,596</u>	<u>32,165</u>	<u>30,088</u>	<u>21,157</u>

Other liabilities are all current, and the above carrying amounts are a reasonable approximation of fair value.

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

37 Commitments

Capital commitments

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

	2006		2005	
	Group £000	Parent £000	Group £000	Parent £000
Property, plant and equipment	18	-	456	456

Operating lease commitments

The future aggregate minimum lease rentals receivable under non-cancellable operating leases are as follows:

	2006		2005	
	Group £000	Parent £000	Group £000	Parent £000
Within 1 year	1,918	1,656	1,881	1,748
Within 2 to 5 years	6,352	5,395	5,983	5,491
After 5 years	9,322	8,366	9,924	9,084
	17,592	15,417	17,788	16,323

The group leases premises and equipment under non-cancellable operating lease agreements. The lease expenditure charged to the income statement during the year is disclosed in note 11.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2006		2005	
	Group £000	Parent £000	Group £000	Parent £000
Within 1 year	2,320	1,937	2,235	1,935
Within 2 to 5 years	6,966	6,076	7,189	6,345
After 5 years	6,972	6,972	7,760	7,760
	16,258	14,985	17,184	16,040

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

38 Parent and subsidiary undertakings

Company status, ultimate parent and controlling party

The company is a public limited company incorporated and domiciled in England and 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 financial statements are available from the registered office as shown on page 11. The parent companies of the smallest and largest groups for which group financial statements are drawn up are Ecclesiastical Insurance Office plc and Allchurches Trust Limited respectively. All the subsidiaries listed are included within the consolidated financial statements. Voting rights are in line with the holdings of ordinary shares.

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

In addition to the above subsidiaries, the Allchurches Investment Funds are consolidated into the group results because in substance the group exerts operational control over the funds, by virtue of Allchurches Investment Management Services Limited being Authorised Corporate Director of the funds.

Additionally, there are five other wholly owned subsidiary undertakings whose assets and contribution to group income are not significant.

Ecclesiastical Insurance Office plc

Notes to the Financial Statements

39 Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not included in the group analysis, but are included within the parent analysis below.

The parent related party transactions below relate to Ecclesiastical Insurance Group plc, the group and parent's immediate parent company. Group and parent other related parties comprise Beaufort House Trust Limited, a company under common control, the group's pension schemes, fellow subsidiary undertakings and the ultimate parent undertaking.

	Parent £000	Subsidiaries £000	Other related parties £000
2006			
<i>Group</i>			
Trading, investment and other income, including recharges	3	-	465
Trading, investment and other expenditure, including recharges	756	-	1,750
Amounts owed by related parties	-	-	889
Amounts owed to related parties	2	-	2,801
<i>Parent</i>			
Trading, investment and other income, including recharges	3	18,334	465
Trading, investment and other expenditure, including recharges	756	14,764	1,337
Amounts owed by related parties	-	21,144	882
Amounts owed to related parties	2	1,398	2,800
2005			
<i>Group</i>			
Trading, investment and other income, including recharges	2	-	362
Trading, investment and other expenditure, including recharges	32	-	1,503
Amounts owed by related parties	-	-	930
Amounts owed to related parties	1	-	23
<i>Parent</i>			
Trading, investment and other income, including recharges	2	15,090	345
Trading, investment and other expenditure, including recharges	9	10,064	1,078
Amounts owed by related parties	-	15,111	921
Amounts owed to related parties	1	519	9

In addition to the above amounts, the company provided services of £6,000 (2005: £61,000) free of charge to Allchurches Trust Limited, the ultimate parent company.

The company holds 250,000 6% Non-Cumulative Redeemable Preference shares in Allchurches Mortgage Company Limited which is a wholly owned subsidiary of Allchurches Trust Limited.

During the year, the company received premiums, commission and reinsurance recoveries via a related party insurance agency amounting to £45,495,000 (2005: £40,989,000) and paid reinsurance protection, commission and claims amounting to £37,700,000 (2005: £35,134,000).

Parent investments in related party mutual funds of £99,893,000 (2005: £85,831,000) are included in listed equity securities in note 22 to the financial statements.

Transactions and services within the group are made on commercial terms.

Amounts outstanding are unsecured, are not subject to guarantees, and will be settled in cash. No provisions have been made in respect of these balances.

Key management compensation is disclosed in note 13.

Ecclesiastical Insurance Office plc

United Kingdom Regional Underwriting Centres

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

Ecclesiastical Insurance Office plc

International Branches

Canada

General Manager and Chief Agent: Mrs S. J. Whyte
Chief Office: 20 Eglinton Avenue West, Suite 2200,
P.O. Box 2004, Toronto,
Ontario M4R 1K8

Manager: Ms. B. Durkee
Atlantic Region 1969 Upper Water Street, Suite 2106,
Purdy's Wharf, Tower 2,
Halifax,
Nova Scotia B3J 3R7

Manager: Ms. B. Dietz
Western Region Suite 630 Box 20,
Bow Valley Square 1,
202-6th Avenue S.W.,
Calgary, Alberta T2P 2R9

Manager: Mrs E. M. Mak
Vancouver Branch Suite 1795, Two Bentall Centre,
555 Burrard Street, Box 239,
Vancouver, British Columbia V7X 1M9

Manager: Mrs C. Oudin
Central Region 20 Eglinton Avenue West, Suite 2200,
P.O. Box 2004, Toronto,
Ontario M4R 1K8

Republic of Ireland

Manager: R. M. Foley
Office: 65 Fitzwilliam Square,
Dublin 2

Ecclesiastical Insurance Office plc

Insurance Subsidiaries and Agencies

Ansvar Insurance Company Limited	General Manager:	I. J. Simpson
	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:	19-21 Billiter Street, London EC3M 2RY
	Tel:	020 7283 0666
Ecclesiastical Life Limited	Managing Director:	M. H. Tripp BSc, ARCS, FIA
	Head Office:	Beaufort House, Brunswick Road, Gloucester, GL1 1JZ
Ansvar Insurance Limited	Managing Director:	J. Peberdy ANZIIF (Snr Assoc)
	Head Office:	PO Box 1655, Level 18, 303 Collins Street, Melbourne 3000
	Regional Manager:	L. Lees ANZIIF (Snr Assoc)
	Victoria:	PO Box 1655, Level 13, 303 Collins Street, Melbourne 3000
	Regional Manager:	A. Garland
	New South Wales:	PO Box 2403, Level 1, 18 Smith Street, North Parramatta 1750
	Regional Manager:	D. Witherington ANZIIF (Snr Assoc)
	Queensland:	PO Box 747, Level 15, 127 Creek Street, Brisbane 4000
	Regional Manager:	J. Jones ANZIIF (Snr Assoc)
	South Australia:	PO Box 338, 202 Glen Osmond Road, Fullarton 5063
	Regional Manager:	M. Thomas ANZIIF (Snr Assoc)
	Western Australia:	PO Box 840, Level 3, 679 Murray Street, West Perth 6872
EIG-Ansvar New Zealand	Manager for New Zealand:	D. Leather MBA
	Head Office:	PO Box 7042, Wellesley Street, Auckland 1036

Ecclesiastical Insurance Office plc

Notice of Meeting

NOTICE is hereby given that the Annual General Meeting of Ecclesiastical Insurance Office plc will be held at Beaufort House, Brunswick Road, Gloucester, GL1 1JZ on Tuesday, 26 June 2007 at 12:15 pm to transact the following ordinary business of the company:

- 1 To receive the report of the directors and accounts for the year ended 31 December 2006 and the report of the auditors thereon.
- 2 To re-elect Mr N. J. E. Sealy as a director.*
- 3 To re-elect Mr G. A. Prescott as a director.*
- 4 To re-elect Mr D. Christie as a director.*
- 5 To elect Mr M. D. Couve a director.*
- 6 To elect Mr M. H. Tripp as a director.*
- 7 To consider the declaration of a dividend.
- 8 To re-appoint Deloitte & Touche LLP as auditors and authorise the directors to fix their remuneration.

By order of the board

Mrs R. J. Hall, Secretary
21 March 2007

Beaufort House
Brunswick Road
Gloucester
GL1 1JZ

* Brief biographies of the directors seeking election or re-election are shown on page 12.

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

This notice is sent for information to the holders of 8.625% Non-Cumulative Irredeemable Preference shares who are not entitled to attend and vote at the meeting.