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ALLCHURCHES TRUST LIMITED

2006 ANNUAL REPORT

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Allchurches Trust Limited

2006 Annual Report

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Allchurches Trust Limited

Trustees

Trustees	M R Cornwall-Jones OBE, MA, ACIS <i>Chairman</i> The Hon N Assheton CVO, MA M A Chamberlain OBE, Hon LLD, FCA H F Hart MA N J E Sealy FCA The Rt Revd W N Stock BA, Dip Theol W H Yates MBE, FRICS
Company Secretary	Mrs R J Hall ACIS
Registered and Head Office	Beaufort House, Brunswick Road, Gloucester GL1 1JZ Tel 01452 528533
Company Registration Number	1043742
Charity Registration Number	263960
Auditors	Deloitte & Touche LLP, London
Bankers	The Royal Bank of Scotland plc, 1 Westgate Street, Gloucester GL1 2TT
Solicitors	Speechly Bircham LLP, 6 St Andrew Street, London EC4A 3LX

Allchurches Trust Limited

Trustees' Report - Objectives, Achievements and Performance

The trustees present their annual report and review together with the audited financial statements for the year ended 31 December 2006

Constitution

Allchurches Trust Limited ("the Trust") was incorporated in 1972. It is a company limited by guarantee not having a share capital and is a registered charity.

The governing documents are the Memorandum and Articles of Association.

Objective

The object of the Trust is to promote the Christian Religion, to contribute to the funds of any charitable institutions, associations, funds or objects and to carry out any charitable purpose.

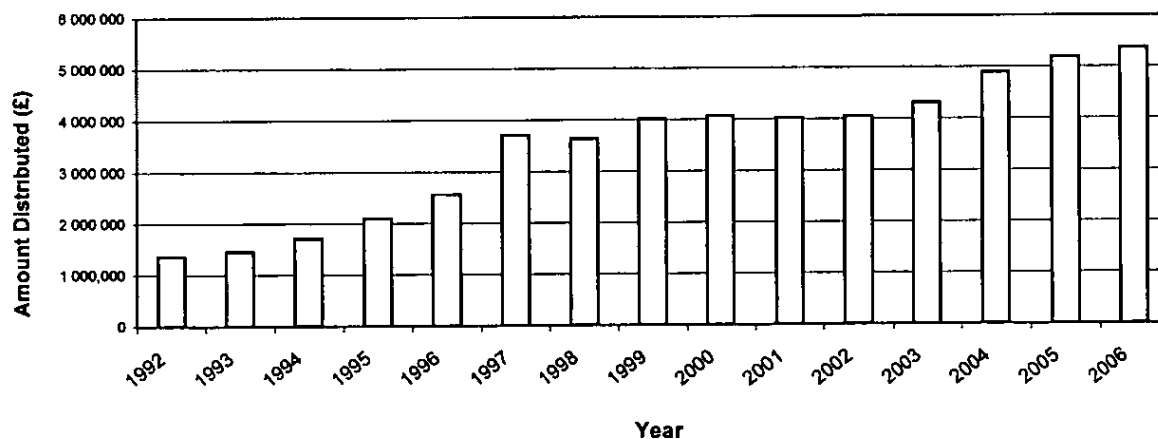
The Trust has adopted the following priorities in fulfilling its purpose:

- supporting the mission and work of the dioceses and cathedrals of the Church of England by the distribution of annual grants
- supporting requests for financial assistance from Anglican churches, churches of other denominations and Christian communities and organisations in accordance with its grant making policy
- maintaining a special project fund to support substantial projects which may have a broad impact on the Christian community in the UK
- establishing an overseas project fund to support the Church and Christian community overseas in accordance with its grant making policy

The Trust will continue to pursue the above activities for the foreseeable future, subject to available funding.

Distributions

The Trust has steadily increased distributions to dioceses, cathedrals, parishes and charitable organisations since 1972. Over the last fifteen years, the Trust has distributed £52.4 million to dioceses, cathedrals, parishes and other charitable organisations.



During 2006, the Trust allocated charitable distributions amounting to £5,365,000. A breakdown of these grants is as follows:

	2006		2005	
	Distributions £000	Donations No.	Distributions £000	Donations No.
Dioceses	4,360	110	4,330	152
Cathedrals	396	112	266	92
Parishes and other charities	609	825	593	792
	5,365	1,047	5,189	1,036

Allchurches Trust Limited

Trustees' Report - Objectives, Achievements and Performance

Dioceses and cathedrals

The majority of the Trust's donations are used to support the dioceses and cathedrals of the Church of England. During the year, the Trust made donations of £4.8 million (2005: £4.6 million).

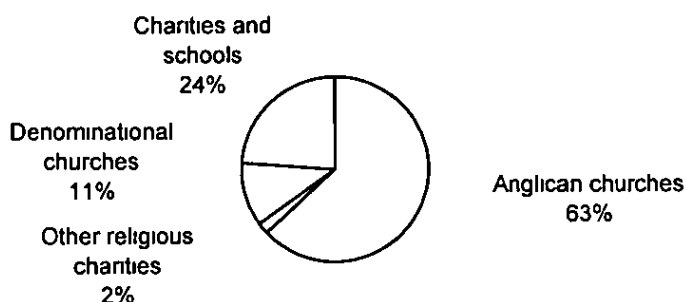
Grants were largely utilised as follows:

- supporting deployment of clergy at parish level, particularly within deprived areas
- funding other staff to support the work of the clergy
- funding new initiatives ranging from supporting parishes to educational work in schools
- maintaining and repairing the church fabric in cathedrals
- funding specific mission and outreach activities

Anglican churches, churches of other denominations and the Christian community

The Trust has a general fund which responds to requests for financial assistance from Anglican churches, churches of other denominations and the Christian community in accordance with its grant making policy. In general, the Trust supports appeals from churches for building and restoration projects, repair of church fabric, church community initiatives, religious charities and charities preserving the UK heritage.

During 2006, the Trust allocated charitable distributions from its general fund in response to appeals for financial assistance as follows:



Special project fund

The special project fund was established in 1999. Its purpose is to support a small number of projects on a larger basis. During the year, the Trust allocated funds to the National Rural Officer Project at the Arthur Rank Centre, The Church Schools Initiative, the Church Urban Fund, the Archbishop's Leadership Project and the University of Gloucestershire.

Overseas projects

During the year, the Trust allocated funds amounting to £15,000 to support Christian causes overseas in Canada and Ireland. In addition, a subsidiary company operating in Australia donated £278,000 (2005: £111,000) to charitable causes in Australia.

Some of the grants made

Some examples of recent donations are listed below to give an illustration of the variety of uses to which the grants have been put.

Norwich Historic Churches Trust

A grant was awarded to the Norwich Historic Churches Trust to support the cost of a major conservation project. The project involves repairs to thirteen local churches and to conserve fifty monuments in the Norwich area, some being of national significance.

St Andrew's Methodist Church – Tamworth, Staffordshire

A grant was awarded towards the 'Community Use Improvement Scheme'. The appeal involves improvements to the church premises to provide better facilities and new opportunities for their church mission and outreach service.

Allchurches Trust Limited

Trustees' Report - Objectives, Achievements and Performance

Grants made (continued)

Selby Abbey – North Yorkshire

The Trust awarded a grant to the Abbey towards a major renovation programme. The project involves restoring the Scriptorium and replacing the pinnacles, re-carving the gargoyles, restoring and re-glazing the medieval stained glass windows.

Bognor Regis Baptist Church

The church established a school of mission and language to facilitate the equipping of young people from overseas to work as missionaries. A grant was awarded to the church to support the costs of converting the church loft into residential accommodation for the church missionary. The conversion is part of the long-term vision of the church and will house missionaries that visit the church.

Church Urban Fund – London

The Trust provided financial assistance towards the Church Urban Fund's Challenging Poverty Campaign, which aims to tackle the problems of those living in poverty in the UK. The project will focus on supporting local faith based initiatives in the poorest neighbourhoods across the country.

St John's Church, Baxendale, Lancashire

The Trust provided financial assistance towards the conversion of the church cellar into a worship area for young people in the local community. The venue will be an area for young people aged 18-25 to gather and learn about the Church.

Archbishops' Leadership Project

A grant was awarded to the Archbishops' Leadership Project to support a study into 'Episcopacy and Leadership' within the Church. The focus of the project is to provide formation and development for present and future leaders within the Church and to assist senior appointment processes. The project involved most diocesan bishops and will generate a theological, spiritual and organisational framework that will aid the development and ministerial training of Church leaders.

All Saints Church – Haggerston, London

All Saints Church is situated in one of the most deprived parts of the country. The Trust awarded a grant to refurbish and develop the church so that it may serve the community through the creation of a café, a crèche and a hall for activities such as drama, dance and other youth work.

St John the Divine Church – Willenhall, Coventry

The Trust provided a grant towards the renovation and furnishing of the church community hall. The hall has been a focal part for local residents and is a resource that enables a great variety of groups including the young, old and socially deprived to congregate in a community environment.

Maybole New Community Church Project – Ayr

The Trust provided financial assistance towards the construction costs of a new modern purpose built church and community centre. The new facility will bring a much-needed resource to the town of Maybole and will incorporate two halls, café, information/book shop and car park.

Allchurches Trust Limited

Trustees' Report - Financial Review

Overview

Allchurches Trust Limited had a successful year and was able to improve its financial support to the Church and other charitable institutions with distributions increasing to £5.4 million (2005 £5.2 million)

The charitable distributions of the Trust are shown in its statement of financial activities on page 12

No significant change in activities occurred in the year or to the date of this report. The company uses the facilities and services provided by Ecclesiastical Insurance Office plc for administrative support. The company continues to have adequate and available resources to continue its charitable activities.

Incoming resources

The Ecclesiastical group provided grants in the current year of £10.0 million. This amount included an expendable capital endowment of £5.0 million paid in respect of the exceptional 2005 result. The prior year's total grant of £5.4 million included a special donation of £650,000. Following the 2006 result, the Ecclesiastical Board agreed a special donation of £500,000 and a further capital endowment of £5.0 million relating to 2006, to be paid in 2007.

Other income of the Trust comprises interest received from cash on deposit.

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

Trading subsidiaries

The principal activities of the trading subsidiaries throughout and at the end of the year remain the transaction of most forms of general and long term insurance in the United Kingdom and overseas and the provision of other financial services. A list of the company's main subsidiary undertakings is given on page 60.

Ecclesiastical Insurance Office plc, the company's main subsidiary undertaking had a successful year. Group profit after taxation amounted to £54.6 million (2005 £72.0 million). Group total assets grew to £1,460.4 million (2005 £1,306.8 million) and group shareholders' funds amounted to £345.0 million (2005 £301.5 million). Ecclesiastical Insurance Office plc has subsidiary companies in Australia and New Zealand and branches in Canada and the Republic of Ireland.

Further results and commentary on the trading activities within the group are fully set out in the Chairman's statement on pages 3 to 4 and Group Chief Executive's review of group operations on pages 5 to 9 of the accounts of the Ecclesiastical Insurance Office plc, a copy of which is sent to each member of Allchurches Trust Limited.

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 in the United Kingdom at 31 December 2006, calculated in accordance with Schedule 7 of the Companies Act 1985, was 15 days (2005 11 days).

Related parties

During the year related party transactions consisting of £331,000 (2005 £412,000) of school fee annuities were accounted for by the group to Beaufort House Trust Limited, a charity under common control and registered at the same address. Of this £63,000 (2005 £118,000) is included in prepayments in the balance sheet. In the current year Ecclesiastical Insurance Office plc also made a donation to Beaufort House Trust Limited of £17,500 (2005 £35,000) net of tax relief.

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.

Allchurches Trust Limited

Trustees' Report - Governance and Decision Making

Governing body

The body responsible for the management, actions and decisions of the company is the Board of Trustees. The Board normally meets five times a year. The Board has not appointed any formal committees or trustees to executive office.

Board proceedings

The Board seeks to ensure that all activities comply with the UK law and regulatory guidance, and come within agreed charitable objectives. Its work includes setting the strategic direction of the charity, developing the objectives, reviewing the performance of trading subsidiaries and delivering the outcomes for which the charity was established.

Board procedures have been established setting out a framework for the conduct of trustees with clear guidelines as to the standard of behaviour, responsibilities, and best practice in fulfilling their obligations to the Trust.

Trustees are able, where appropriate, to take independent professional advice at no personal expense so that they are able to fulfil their role.

Appointments to the Board

The Board aims to have a diverse group of trustees, with a balance of necessary skills and experience and which is broadly representative of the community it serves. Dialogue with representatives from the church community it serves takes place in identifying potential candidates for the Board. All appointments to the Board are made on merit and to fulfil a specific function or need. The Trust does not feel it appropriate to open Board membership to a wider range of candidates.

Trustees

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

Mr H. Harris-Hughes retired from the Board on 20 July 2006 and Viscount Churchill retired from the Board on 31 December 2006. The Board expressed its gratitude for their contribution to the company over the years. Mr M. A. Chamberlain and the Rt. Revd. W. N. Stock were appointed as trustees on 5 December 2006.

The trustees are covered by qualifying third party indemnity provisions, paid by Ecclesiastical Insurance Office plc, which were in place throughout the year and remain in force at the date of this report. The trustees have resolved to propose at the forthcoming annual general meeting that the Memorandum and Articles of Association be amended to include express provisions in respect of liability indemnity for the benefit of the trustees.

Election of trustees

In accordance with the Articles of Association, the trustees may at any time appoint any person to be a trustee either to fill a casual vacancy or in addition to the existing trustees. Any such trustee appointed shall retire at the following annual general meeting and be eligible for re-election by the members. In certain circumstances the Articles of Association permit a member to propose for election a trustee in general meetings.

The Hon. N. Assheton and Mr H. F. Hart retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. Mr M. A. Chamberlain and The Rt. Revd. W. N. Stock were appointed to the Board on 5 December 2006, and in accordance with the Articles of Association, they retire at the forthcoming annual general meeting and, being eligible, offer themselves for election.

Induction and training

New trustees are supported through an induction process which includes a formal presentation covering all aspects of the role, company and group. In addition, a continuing professional development programme has been introduced for existing trustees.

Members

In accordance with the Articles of Association, the company in general meeting may admit any person to membership provided the total number of members does not exceed 50. In the event of the company being wound up, the liability of each of the members is limited to £1 each.

During the year several changes in membership took place. In particular, members will wish to note the death of Sir Alan McLintock, who was chairman of Allchurches Trust from June 1975 to July 2003 and who remained a member until his death in 2007.

Allchurches Trust Limited

Trustees' Report - Governance and Decision Making

Risk Management

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

Details of the financial risk management objectives and policies of the group and company and its exposures are disclosed in note 2 to the financial statements. The Trust is exposed to financial risk through its investments in group undertakings and its cash on deposit. In respect of investments in group undertakings, the Trust is subject to the financial risks within those undertakings. In respect of its cash deposits the Trust is exposed to interest rate risk.

Charitable and political contributions

During the course of the year the company and its subsidiary undertakings distributed from their resources £5.7 million (2005: £5.4 million) for charitable purposes. A summary of these distributions is set out in note 11. Details of individual grants have been submitted to the Charity Commission.

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

Reserving policy

The Trust's income is derived from a cyclical industry. The trustees believe that it is desirable so far as possible to maintain stability of charitable distributions. In order to provide this stability it is their policy to retain, in reserve, funds at a level equivalent to the amount distributed in the previous financial year. In addition, a £5.0 million expendable capital endowment was provided by Ecclesiastical in the year, which the trustees have resolved to retain to strengthen the charity's reserves.

The total amount available for charitable distribution at the end of the year was £5.7 million (2005: £5.8 million).

Investment policy

Full details of the company's investments in subsidiary undertakings are disclosed in note 28. Other investments of Allchurches Trust Limited comprise cash on deposit.

Grant making policy

The trustees regularly review the grant making policy of the Trust to ensure it remains appropriate to the strategic direction of the charity and its objects. A copy of the grant making policy is available from the company secretary at the registered office shown on page 2.

Trustees' interests

The interests of the trustees, all of which are beneficial, in the 8.625% Non-Cumulative Irredeemable Preference shares of Ecclesiastical Insurance Office plc are as follows:

	Interest at 31.12.2006	Interest at 1.1.2006
	No.	No.
M. R. Cornwall-Jones	500	500
The Hon. N. Assheton	-	-
M. A. Chamberlain	-	-
H. F. Hart	-	-
N. J. E. Sealy	-	-
The Rt. Revd. W. N. Stock	-	-
W. H. Yates	-	-

No trustee had an interest in any other shares or debentures of the group as at 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 trustee was or is materially interested.

Allchurches Trust Limited

Trustees' Report - Governance and Decision Making

Statement of trustees' responsibilities

The trustees are required to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the charity and the group and the incoming resources and application of resources, including the net income or expenditure, of the group for the year. In preparing those financial statements, the trustees are required to

- select suitable accounting policies and then apply them consistently
- make judgments and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going-concern basis unless it is inappropriate to presume that the charity will continue in business

The trustees are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the charity and the group and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the charity and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor and the disclosure of information to auditors

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

Equalities and diversity

The company and its trading subsidiaries are committed to the principle and practice of equal opportunity in employment for all its employees, applicants for employment and Board membership.

The group recognises the importance of employee communication and aims to keep employees informed about its affairs through the use of briefing groups, group newsletters and the annual publication of financial reports. Regular meetings are held between management and employees and discussion encouraged. It is the group's policy to give full consideration to applications for employment by disabled persons. Appropriate training is arranged for disabled persons, including retraining for alternative work of employees who become disabled, to promote their career development within the organisation.

Allchurches Trust Limited itself has no direct employees.

Governance code

The Board intends and believes that the affairs of the company should be conducted in accordance with best business practice and uses The Code of Governance for the Voluntary and Community Sector to review performance in this area.

By order of the board



Mrs R J Hall
Secretary
26 June 2007

Allchurches Trust Limited

Independent Auditors' Report

Independent auditors' report to the members of Allchurches Trust Limited

We have audited the group and individual company financial statements (the "financial statements") of Allchurches Trust Limited for the year ended 31 December 2006 which comprise the statement of financial activities, the consolidated profit and loss account, the consolidated and individual company balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the charitable 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 charitable company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the 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 trustees and auditors

As described in the statement of trustees' responsibilities, the trustees, who are also the directors of the charity for the purposes of company law, are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

We report to you our opinion as to whether the financial statements give a true and fair view, and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the trustees' report is consistent with the financial statements. In addition we report to you if, in our opinion, the charity 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 trustees' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

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

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

Equalisation reserves

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amounts set aside at 31 December 2006, and the effect of the movement in those reserves during the year on the balance on the general business technical account and profit on ordinary activities before taxation, are disclosed in note 20.

Allchurches Trust Limited

Independent Auditors' Report

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the charitable company's affairs as at 31 December 2006 and of its incoming resources and application of resources, including its income and expenditure, for the year then ended
- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's affairs as at 31 December 2006 and of the group's surplus for the year then ended
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the trustees' report is consistent with the financial statements



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
July 2007

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Allchurches Trust Limited

Company Statement of Financial Activities

for the year ended 31 December 2006

	Notes	2006			2005
		Unrestricted funds £000	Endowment funds £000	Total funds £000	Total funds £000
Incoming resources					
Incoming resources from generated funds					
<i>Investment income</i>					
Gift aid from subsidiary undertaking		5,000	5,000	10,000	5,350
Deposit interest		336	-	336	254
<i>Voluntary income</i>					
Donated services and facilities		6	-	6	61
Total incoming resources		5,342	5,000	10,342	5,665
Resources expended					
<i>Charitable activities</i>					
Charitable grants	11	5,365	-	5,365	5,189
<i>Costs of generating voluntary income</i>					
Donated services and facilities		6	-	6	61
<i>Governance costs</i>		3	-	3	2
Total resources expended		5,374	-	5,374	5,252
Net incoming resources for the year		(32)	5,000	4,968	413
Other recognised gains and losses					
Movement in revaluation reserve	13	50,517	-	50,517	61,147
Total recognised gains and losses and net movement in funds		50,485	5,000	55,485	61,560
Total funds brought forward		237,518	-	237,518	175,958
Total funds carried forward	17	288,003	5,000	293,003	237,518

Voluntary income consists of an amount of £6,000 (2005 £61,000) estimated by the Trustees as the fair value of management and administration costs incurred by subsidiary undertakings on behalf of the company but not recharged. An equal amount is shown within resources expended during the year.

Allchurches Trust Limited

Group Statement of Financial Activities

for the year ended 31 December 2006

	Notes	2006			2005
		Unrestricted funds £000	Endowment funds £000	Total funds £000	Total funds £000
Incoming resources					
Incoming resources from generated funds:					
<i>Investment income</i>					
Deposit interest		336	-	336	254
<i>Activities for generating funds</i>					
Trading subsidiaries profit		51,946	-	51,946	67,577
Total incoming resources		52,282	-	52,282	67,831
Resources expended					
<i>Charitable activities</i>					
Charitable grants	11	5,701	-	5,701	5,369
<i>Governance costs of the charity</i>		3	-	3	2
Total resources expended		5,704	-	5,704	5,371
Net incoming resources before transfers		46,578	-	46,578	62,460
Transfers					
Gross transfers between funds		(5,000)	5,000	-	-
Net incoming resources before other recognised gains and losses		41,578	5,000	46,578	62,460
Other recognised gains and losses					
Currency translation differences		(4,316)	-	(4,316)	3,769
Actuarial gains/(losses) on retirement benefits		12,383	-	12,383	(8,744)
Total recognised gains and losses		49,645	5,000	54,645	57,485
Other movements	17	840	-	840	4,075
Net movement in funds		50,485	5,000	55,485	61,560
Total funds brought forward		237,518	-	237,518	175,958
Total funds carried forward	17	288,003	5,000	293,003	237,518

Net incoming resources for the group represent the retained profit for the financial year presented in the consolidated profit and loss non-technical account

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

Allchurches Trust Limited

Consolidated Profit and Loss Account

for the year ended 31 December 2006

	Notes	2006 £000	2005 £000
TECHNICAL ACCOUNT - GENERAL BUSINESS			
Gross premiums written	4(a)	358,283	346,634
Outward reinsurance premiums		<u>(119,980)</u>	<u>(117,536)</u>
Net premiums written	4(a)	<u>238,303</u>	<u>229,098</u>
Change in the gross provision for unearned premiums		6,742	2,598
Change in the provision for unearned premiums, reinsurers' share		<u>(2,572)</u>	<u>(810)</u>
Change in the net provision for unearned premiums		<u>4,170</u>	<u>1,788</u>
Earned premiums, net of reinsurance		234,133	227,310
Claims paid			
- gross amount		139,092	144,203
- reinsurers' share		<u>(39,784)</u>	<u>(41,814)</u>
		<u>99,308</u>	<u>102,389</u>
Change in the provision for claims			
- gross amount		40,429	15,424
- reinsurers' share		<u>(9,793)</u>	<u>6,067</u>
		<u>30,636</u>	<u>21,491</u>
Claims incurred, net of reinsurance		129,944	123,880
Net operating expenses	6(a)	<u>79,222</u>	<u>67,057</u>
Total technical charges		209,166	190,937
Balance on the technical account before equalisation provision		24,967	36,373
Change in the equalisation provision	20	<u>(1,932)</u>	<u>(3,177)</u>
Balance on the technical account for general business		23,035	33,196

All of the amounts above are in respect of continuing operations

Allchurches Trust Limited

Consolidated Profit and Loss Account

for the year ended 31 December 2006

	Notes	2006 £000	2005 £000
TECHNICAL ACCOUNT - LONG TERM BUSINESS			
Gross premiums written	4(b)	45,033	15,052
Outward reinsurance premiums		(1,113)	(853)
Earned premiums, net of reinsurance		43,920	14,199
Investment income	5	18,863	14,397
Unrealised gains on investments		15,200	25,022
Total technical income		77,983	53,618
Claims paid		28,323	23,224
- gross amount			
- reinsurers' share		(332)	(235)
		27,991	22,989
Change in the provision for claims		2,453	(147)
- gross amount			
- reinsurers' share		(84)	(57)
		2,369	(204)
Claims incurred, net of reinsurance		30,360	22,785
Change in other technical provisions			
Long term business provision		(8,051)	(6,032)
- gross amount			
- reinsurers' share		(125)	(498)
		(8,176)	(6,530)
Technical provision for linked business		29,719	3,580
Provision for investment contract liabilities		8,865	6,992
Change in other technical provisions, net of reinsurance		30,408	4,042
Net operating expenses	6(a)	4,375	3,939
Investment expenses and charges	5	983	760
Tax attributable to long term business	10	1,709	1,988
Transfer to the fund for future appropriations		8,399	15,541
		15,466	22,228
Total technical charges		76,234	49,055
Balance on the technical account for long term business		1,749	4,563

All the amounts above are in respect of continuing operations in the United Kingdom

Allchurches Trust Limited

Consolidated Profit and Loss Account

for the year ended 31 December 2006

	Notes	2006 £000	2005 £000
NON-TECHNICAL ACCOUNT			
Balance on the general business technical account		23,035	33,196
Balance on the long term business technical account		1,749	4,563
		24,784	37,759
Investment income	5	33,267	30,861
Unrealised gains on investments		17,708	36,804
Investment expenses and charges	5	(2,680)	(9,037)
Other finance income	16	2,638	2,268
Other operations		(768)	353
Other charges	6(b)	(429)	(2,356)
Charitable grants	11	(5,701)	(5,369)
		44,035	53,524
Operating profit		70,751	94,460
Change in equalisation provision	20	(1,932)	(3,177)
Profit on ordinary activities before tax	4(c)	68,819	91,283
Tax charge on profit on ordinary activities	10	(17,205)	(24,558)
Profit on ordinary activities after tax		51,614	66,725
Minority interests	19	(5,036)	(4,265)
Retained profit for the financial year	17	46,578	62,460

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2006

		2006 £000	2005 £000
Retained profit for the financial year		46,578	62,460
Currency translation differences		(4,316)	3,769
Actuational gains/(losses) relating to pension asset		18,022	(12,307)
Movement on deferred tax relating to pension asset		(5,425)	3,669
Actuational losses relating to other retirement benefits		(305)	(152)
Movement on deferred tax relating to other retirement benefits		91	46
Total recognised gains and losses for the financial year	18	54,645	57,485
Prior year adjustments		-	2,570
Total recognised gains and losses since last annual report		54,645	60,055

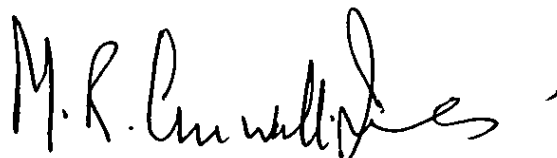
Allchurches Trust Limited

Parent Company Balance Sheet

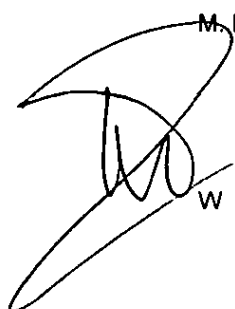
at 31 December 2006

	Notes	2006			2005
		Unrestricted funds £000	Endowment funds £000	Total funds £000	Total funds £000
Fixed assets. investments					
Shares in group undertakings	13	282,329	-	282,329	231,812
Current assets					
Prepayments and accrued income		2,800	-	2,800	10
Cash at bank and in hand		2,952	5,000	7,952	5,750
		<u>5,752</u>	<u>5,000</u>	<u>10,752</u>	<u>5,760</u>
Liabilities					
Creditors amounts falling due within one year		78	-	78	54
Net current assets		<u>5,674</u>	<u>5,000</u>	<u>10,674</u>	<u>5,706</u>
Net assets		<u>288,003</u>	<u>5,000</u>	<u>293,003</u>	<u>237,518</u>
The funds of the charity					
Unrestricted funds					
Unrestricted income funds	17	5,724	-	5,724	5,756
Revaluation reserve	17	282,279	-	282,279	231,762
		<u>288,003</u>	<u>-</u>	<u>288,003</u>	<u>237,518</u>
Endowment funds	17	-	5,000	5,000	-
Total charity funds		<u>288,003</u>	<u>5,000</u>	<u>293,003</u>	<u>237,518</u>

The financial statements on pages 12 to 60 were approved by the Board on 26 June 2007 and signed on its behalf by



M. R. CORNWALL-JONES Chairman



W. H. YATES

Trustee

Allchurches Trust Limited

Consolidated Balance Sheet

at 31 December 2006

	Notes	2006			2005
		Unrestricted funds £000	Endowment funds £000	Total funds £000	Total funds £000
ASSETS					
Goodwill	12	835	-	835	1,253
Investments					
Land and buildings	13	40,590	-	40,590	33,470
Other financial investments	13	853,220	-	853,220	799,189
		893,810	-	893,810	832,659
Reinsurers' share of technical provisions					
Provision for unearned premiums	20	47,184	-	47,184	45,304
Long term business provision	20	1,808	-	1,808	1,683
Claims outstanding	20	111,781	-	111,781	103,566
		160,773	-	160,773	150,553
Debtors					
Debtors arising out of direct insurance operations	14(a)	62,621	-	62,621	53,452
Debtors arising out of reinsurance operations	14(b)	8,358	-	8,358	12,865
Other debtors		6,145	-	6,145	6,117
		77,124	-	77,124	72,434
Other assets					
Tangible assets	15	9,449	-	9,449	8,150
Cash at bank and in hand		233,117	5,000	238,117	178,429
		242,566	5,000	247,566	186,579
Prepayments and accrued income					
Accrued interest and rent		7,360	-	7,360	7,081
Deferred acquisition costs		29,477	-	29,477	29,121
Other prepayments and accrued income		3,015	-	3,015	2,596
		39,852	-	39,852	38,798
Total assets excluding pension assets		1,414,960	5,000	1,419,960	1,282,276
Pension assets	16	14,653	-	14,653	1,358
Total assets	4(e)	1,429,613	5,000	1,434,613	1,283,634

Allchurches Trust Limited

Consolidated Balance Sheet

at 31 December 2006

	Notes	2006			2005
		Unrestricted funds £000	Endowment funds £000	Total funds £000	Total funds £000
LIABILITIES					
Reserves					
Translation reserve	17	(566)	-	(566)	3,745
Profit and loss account	17	288,569	-	288,569	233,773
Endowment funds	17	-	5,000	5,000	-
		<u>288,003</u>	<u>5,000</u>	<u>293,003</u>	<u>237,518</u>
Minority interests	19	60,453	-	60,453	56,953
Fund for future appropriations		38,105	-	38,105	29,706
Technical provisions					
Provision for unearned premiums	20	170,265	-	170,265	166,531
Long term business provision	20	196,902	-	196,902	204,953
Claims outstanding	20	420,805	-	420,805	384,460
Equalisation provision	20	22,722	-	22,722	20,790
		<u>810,694</u>	<u>-</u>	<u>810,694</u>	<u>776,734</u>
Technical provision for linked liabilities	20	42,414	-	42,414	12,695
Investment contract liabilities	21	56,214	-	56,214	48,846
Provisions for other risks and charges	22	47,278	-	47,278	38,439
Deposits received from reinsurers		9	-	9	9
Creditors					
Creditors arising out of direct insurance operations		3,054	-	3,054	1,955
Creditors arising out of reinsurance operations	14(b)	19,362	-	19,362	11,536
Other creditors including taxation and social security	24	33,133	-	33,133	39,839
		<u>55,549</u>	<u>-</u>	<u>55,549</u>	<u>53,330</u>
Accruals and deferred income		24,940	-	24,940	24,432
Total liabilities excluding retirement benefit obligations		<u>1,423,659</u>	<u>5,000</u>	<u>1,428,659</u>	<u>1,278,662</u>
Retirement benefit obligations	16	5,954	-	5,954	4,972
Total liabilities		<u>1,429,613</u>	<u>5,000</u>	<u>1,434,613</u>	<u>1,283,634</u>

Allchurches Trust Limited

Consolidated Cash Flow Statement

for the year ended 31 December 2006 (excluding long term insurance business)

	Notes	2006 £000	2005 £000
Net cash inflow from operating activities	25(a)	94,650	79,937
Servicing of finance			
Loan interest paid		(1,600)	(1,690)
Redeemable preference share dividends paid		-	(150)
Preference dividends paid to minority interests		(5,036)	(4,265)
Other interest paid		(298)	(121)
Taxation paid		(13,270)	(17,708)
Capital expenditure			
Purchase of tangible fixed assets		(4,116)	(3,158)
Proceeds from the disposal of fixed assets		86	74
Acquisitions and disposals		314	329
Financing			
Capital element of lease purchase rental payments		(349)	(345)
Repayment of long term business loan		(2,700)	(2,800)
Repayment of other borrowings		-	(3)
Capital contributions from minority interests		4,340	21,900
	25(b)	72,021	72,000
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings		53,370	(946)
Portfolio investment			
Purchases of shares and other variable yield securities		14,114	12,070
Purchases of fixed income securities		225,754	273,316
Purchases of properties		2,394	2,330
Sales of shares and other variable yield securities		(7,248)	(6,116)
Sales of fixed income securities		(214,291)	(208,654)
Sales of properties		(2,072)	-
Net investment of cash flows		72,021	72,000
Movement arising from cash flows		72,021	72,000
Movement in long term business		39,909	25,350
Repayment of long term business loan		2,700	2,800
Changes in market values and exchange rate effects		8,909	39,681
Total movement in portfolio investments net of financing		123,539	139,831
Portfolio investments net of financing at 1 January		988,638	848,807
Portfolio investments net of financing at 31 December	25(b)	1,112,177	988,638

Allchurches Trust Limited

Accounting Policies

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, modified for the revaluation of certain investments, in accordance with Section 255A of, and Schedule 9A to, the Companies Act 1985. The financial statements of the parent company have been prepared on a historical cost basis, in accordance with Section 226 of, and Schedule 4 to, the Companies Act 1985 and in accordance with applicable United Kingdom accounting standards.

The principal activities of the trading subsidiaries of the charity remain the transaction of insurance and the provision of financial services and all funds within the trading subsidiaries support their trade. As an insurance group, the consolidated financial statements are required to be prepared in accordance with Schedule 9A of the Companies Act 1985. For consistency with the requirements of Schedule 9A, the directors have followed the material recommendations of the 2005 Statement of Recommended Practice issued by the Association of British Insurers (ABI SORP) and the Statement of Recommended Practice (Charities SORP) "Accounting and Reporting by Charities". Where it provides a more appropriate presentation of financial statements, the ABI SORP has been adopted.

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 adopted early the amendments to FRS17, *Retirement Benefits*, which replaces the existing disclosure requirements of FRS17 with those of IAS19, *Employee Benefits*. The amended disclosures are presented in note 16 to the financial statements.

Basis of consolidation

The assets, liabilities and results of subsidiary undertakings are included in the consolidated financial statements using audited accounts made up to 31 December. For businesses acquired or disposed of during the year, the results and cash flows relating to a business are included in the consolidated profit and loss account and the consolidated cash flow statement from the date of acquisition or up to the date of disposal.

Funds structure

There is no separate designation of unrestricted funds. Endowment funds are expendable endowments that are retained to strengthen the charity's reserves. The trustees have the power to convert endowment funds to expendable income.

Incoming resources

In the parent company, gift aid and deposit interest are recognised on an accruals basis. Income from endowment funds is unrestricted.

Resources expended

In the parent company, resources expended comprise charitable grants which are recognised on an accruals basis.

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

Allchurches Trust Limited

Accounting Policies

Foreign exchange

The 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 shareholders' funds. On disposal of a foreign operation, such exchange differences are transferred out of this reserve and are recognised in the profit and loss account as part of the gain or loss on sale.

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

Premium levies

Provision is made for the potential liability to the Financial Services Compensation Scheme and Motor Insurers' Bureau in respect of premiums recognised in these financial statements to the extent that it is probable that a levy will be raised and a reasonable estimate of its amount can be made. The charge for any such provision is included within administrative expenses.

Product classification

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

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

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

Premium income

General insurance business

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

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

Long term business

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

For investment contracts, amounts collected as premiums are not included in the profit and loss account but are reported as deposits to investment contract liabilities in the balance sheet.

Allchurches Trust Limited

Accounting Policies

Revenue from investment contracts

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

Claims

Long term insurance business 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 profit and loss account but are instead deducted from investment contract liabilities.

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

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

Insurance contract liabilities

General insurance provisions

(i) Outstanding claims provisions

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

(ii) Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as a provision for unearned premiums. The provision is computed separately for each insurance contract using the daily pro rata method and adjusted where necessary to take into account the risk profile of the contracts. The change in this provision is taken to the profit and loss account in order that revenue is recognised over the period of risk.

(iii) Unexpired risks

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

(iv) Equalisation provision

Provision is made in the group accounts for the equalisation provision required by chapter 7 of the Integrated Prudential Sourcebook for Insurers. It is required by Schedule 9A to the Companies Act 1985 to be included within technical provisions in the balance sheet even though no actual liability exists at the balance sheet date.

Long term business provisions

The long term business provision is determined using methods and assumptions approved by the directors based on advice from the Actuarial Function Holder. Initially it is calculated to comply with the reporting requirements under the Integrated Prudential Sourcebook. 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.

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.

Allchurches Trust Limited

Accounting Policies

Insurance contract liabilities (continued)

Allocation of surpluses and fund for future appropriations

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

Investment contract liabilities

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

Reinsurance

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

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

Investments

Land and buildings

Land and buildings, including properties occupied by the group, are stated at open market value as determined by external qualified surveyors.

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

Other financial investments

The group classifies its investments as either financial assets designated at fair value through profit and loss 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 profit and loss are subsequently carried at fair value, with changes in fair value included in the profit and loss account 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 profit and loss account.

Allchurches Trust Limited

Accounting Policies

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 profit and loss account.

For a variety of reasons, group derivative transactions, while providing effective economic hedges under the group's risk management positions, do not qualify for hedge accounting under the specific FRS 26 rules and are therefore treated as derivatives held for trading. Their fair value gains and losses are recognised immediately in investment return.

Investment income and expenses

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

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

Investment return on investments attributable to the long term business funds is reported in the technical account for long term business. The return on the associated shareholders' and general business funds are reported in the non-technical account.

Offset of financial assets and financial liabilities

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

Deferred acquisition costs

General insurance business

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

Long term business

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

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

Deferred taxation

Provision for deferred tax includes timing differences relating to the recalculation of gains and losses on investments, at rates at which it is expected that the tax will arise. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Allchurches Trust Limited

Accounting Policies

Tangible assets

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

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

Employee benefits

Pension obligations

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

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

Contributions in respect of defined contribution schemes are recognised as an expense in the profit and loss account as incurred.

Other post-employment obligations

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

Other benefits

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

Leasing commitments

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

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

Goodwill

Goodwill arising on an acquisition, being the difference between the cost and the fair value of assets and liabilities acquired, is capitalised in the balance sheet and amortised through the profit and loss account over its estimated useful economic life of 10 years, on a straight-line basis. The gain or loss on any subsequent disposal of a subsidiary or associated undertaking will include any attributable unamortised goodwill.

Allchurches Trust Limited

Notes to the Financial Statements

1 Insurance risk

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

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

Allchurches Trust Limited

Notes to the Financial Statements

1 Insurance risk (continued)

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

Concentrations of risk

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

Group		Type of risk				Total £000
2006		Property £000	Liability £000	Motor £000	Accident £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

2005		Type of risk				Total £000
		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

Allchurches Trust Limited

Notes to the Financial Statements

1 Insurance risk (continued)

Sources of uncertainty in the estimation of future claim payments

Property classes

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

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

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

Liability classes

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

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

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

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

Note 20 presents the development of the estimate of ultimate claim cost for public and employers' liability claims occurring in a given year. This gives an indication of the accuracy of the estimation technique for incurred claims.

Sources of uncertainty

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

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

Allchurches Trust Limited

Notes to the Financial Statements

1 Insurance risk (continued)

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

Prudence in the provisions for outstanding claims

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

Special provisions for latent claims

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

(b) Long term business fund

Frequency and severity of claims

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

	With-profit fund £000	Non-profit fund £000	Total £000
Long term business provision 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	8,301	93,199
Pensions assurance	39,061	202	39,263
Pensions annuities in payment	-	60,011	60,011
Life annuities in payment	-	22,936	22,936
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 fewer claims than expected. For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that would increase longevity.

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

Allchurches Trust Limited

Notes to the Financial Statements

1 Insurance risk (continued)

Frequency and severity of claims (continued)

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

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

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

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

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

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

Group life yearly renewable contracts

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

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

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

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

Long term insurance contracts

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

The group uses appropriate industry standard base tables of 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.

Allchurches Trust Limited

Notes to the Financial Statements

1 Insurance risk (continued)

Options and guarantees

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

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

With-profit 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).

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 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:

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

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 in 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

2 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.

Group	Effective interest rate %	Maturing within*			Total £000
		1 year or less £000	2-5 years £000	More than 5 years £000	
As at 31 December 2006					
Assets:					
Debt securities	4.3	41,419	131,278	260,683	433,380
Mortgage and other loans	5.9	233	1,066	21,318	22,617
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	238,117	-	-	238,117
		304,771	132,764	282,095	719,630
Liabilities:					
13% Debenture Stock 2018	13.0	-	-	6,000	6,000
Corporate business loan	5.4	5,000	8,750	-	13,750
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
		9,421	19,264	167,080	195,765
As at 31 December 2005					
Assets:					
Debt securities	3.7	58,242	126,686	244,044	428,972
Mortgage and other loans	5.9	67	1,469	17,127	18,663
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	3.8	178,429	-	-	178,429
		258,717	128,724	261,241	648,682
Liabilities:					
13% Debenture Stock 2018	13.0	-	-	6,000	6,000
Corporate business loan	5.3	5,000	11,450	-	16,450
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
		17,513	46,588	102,422	166,523

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Notes to the Financial Statements

2 Financial risk (continued)

	Effective interest rate %	Maturing within			Total £000
		1 year or less £000	2-5 years £000	More than 5 years £000	
<i>Parent</i>					
As at 31 December 2006					
Assets:					
Cash and cash equivalents	4.8	7,952	-	-	7,952
		<u>7,952</u>	<u>-</u>	<u>-</u>	<u>7,952</u>
As at 31 December 2005					
Assets:					
Cash and cash equivalents	4.3	5,750	-	-	5,750
		<u>5,750</u>	<u>-</u>	<u>-</u>	<u>5,750</u>

Those financial assets and liabilities 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.

Non-profit contracts excluding unit-linked

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

With-profit contracts

All contracts are held in a distinct fund. The surplus of assets over liabilities in this fund is available solely to provide future benefits for insurance policyholders. The group is not entitled to a share of this surplus. There is therefore no price, currency, credit, or interest rate risk to the group for these contracts under current circumstances. It is possible under some circumstances that guaranteed benefits will exceed the fund's assets and the group could be called upon to provide financial support to the fund. The nature of these guarantees is described in more detail in note 1(b).

Unit-linked contracts

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

(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
- 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.

Allchurches Trust Limited

Notes to the Financial Statements

2 Financial risk (continued)

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.

(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
- 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 profit and loss. The group mitigates this risk through the use of options which would limit losses in the event of a fall in equity markets.

Allchurches Trust Limited

Notes to the Financial Statements

3 Exchange rates

	2006		2005	
The principal rates of exchange used for translation are	Average	Closing	Average	Closing
Canada	C\$ 2.10	C\$ 2.28	C\$ 2.20	C\$ 2.01
Republic of Ireland	€ 1.47	€ 1.48	€ 1.46	€ 1.46
Australia	A\$ 2.45	A\$ 2.48	A\$ 2.38	A\$ 2.34

4 Group segmental analysis

(a) General business premiums

	2006		2005	
	Gross £000	Net £000	Gross £000	Net £000
Direct				
Accident	6,903	6,493	7,769	7,419
Motor	28,312	26,447	33,669	28,019
Property	185,135	93,695	179,483	93,208
Liability	82,719	73,175	78,571	68,224
	<u>303,069</u>	<u>199,810</u>	<u>299,492</u>	<u>196,870</u>
Reinsurance accepted and London market	55,214	38,493	47,142	32,228
Total	<u>358,283</u>	<u>238,303</u>	<u>346,634</u>	<u>229,098</u>

Geographical analysis - on the basis of location of office

United Kingdom	288,316	192,097	272,439	178,888
Australia and New Zealand	50,941	32,567	50,478	32,517
Canada	13,906	10,617	15,216	12,311
Other overseas	5,120	3,022	8,501	5,382
Total	<u>358,283</u>	<u>238,303</u>	<u>346,634</u>	<u>229,098</u>

(b) Long term business premiums

Geographical analysis - on the basis of location of office

All long term business premiums were generated from offices within the United Kingdom

	2006 £000	2005 £000
The analysis of long term business premiums written before reinsurance is:		
Life insurance business		
- Single premiums	31,645	4,301
- Regular premiums	4,179	4,645
Annuity business		
- Single premiums	5,280	1,976
Pension business		
Non-linked contracts		
- Single premiums	252	663
- Regular premiums	3,559	3,326
Permanent health insurance	<u>118</u>	<u>141</u>
	<u>45,033</u>	<u>15,052</u>
Gross new annualised regular premiums		
Life insurance	86	37
Pensions	<u>301</u>	<u>413</u>
	<u>387</u>	<u>450</u>

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

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

Allchurches Trust Limited

Notes to the Financial Statements

4 Segmental analysis (continued)

(c) Profit before taxation	2006	2005
	£000	£000
United Kingdom	60,444	81,154
Australia and New Zealand	6,893	9,082
Canada	1,228	(243)
Other overseas	254	1,290
Total	68,819	91,283
(d) Net assets		
United Kingdom	247,638	192,886
Australia and New Zealand	24,341	22,056
Canada	20,367	22,143
Other overseas	657	433
Total	293,003	237,518

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

(e) Total assets

Of the total assets shown on page 18, £349.1 million (2005 £307.5 million) are attributable to the long term business fund

5 Investment return

	2006		2005	
<i>Group</i>	General business	Long term business	General business	Long term business
	£000	£000	£000	£000
Land and buildings	1,388	204	1,660	174
Other investments	28,367	14,153	29,201	14,168
Realised investment gains	3,512	4,506	-	55
Investment income	33,267	18,863	30,861	14,397
Investment expenses and charges				
Investment management expenses, including interest	2,680	983	2,645	760
Realised investment losses	-	-	6,392	-
Investment expenses and charges	2,680	983	9,037	760
Net investment return	30,587	17,880	21,824	13,637

Investment management expenses include debenture interest payable of £780,000 (2005 £780,000), corporate business loan interest payable of £270,000 (2005 £269,000) and redeemable preference share dividends of £nil (2005 £150,000)

Allchurches Trust Limited

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6 Group expenses

	2006		2005	
	General business £000	Long term business £000	General business £000	Long term business £000
(a) Net operating expenses				
Commission paid on direct business	47,642	376	46,670	124
Other acquisition costs	17,101	2,927	14,510	2,819
Change in deferred acquisition costs	(928)	(2)	138	(152)
Administrative expenses	50,092	2,093	43,242	1,838
Reinsurance commissions and profit participation	(34,685)	(1,019)	(37,503)	(690)
	79,222	4,375	67,057	3,939
(b) Other charges				
Amortisation of goodwill	418	-	418	-
Non-insurance subsidiary expenses	11	-	1,520	-
Premium on redesignation of redeemable preference shares	-	-	418	-
	429	-	2,356	-

7 Group operating profit

	2006		2005	
	General business £000	Long term business £000	General business £000	Long term business £000
Operating profit has been arrived at after charging/(crediting):				
Net foreign exchange losses/(gains)	3,563	376	(1,534)	(287)
Depreciation	2,487	182	2,871	221
- owned assets				
- leased assets	357	68	338	93
Fair value gains on investments at fair value through profit and loss	17,281	19,073	26,497	24,824
Interest payments under lease purchase contracts	132	18	129	28
Auditors' remuneration				
Fees payable to the company's auditor for the audit of the company's annual accounts	3	-	2	-
Fees payable to the company's auditor and its associates for other services				
The audit of the company's subsidiaries, pursuant to legislation	337	34	508	42
Other services pursuant to legislation	173	64	237	72
Tax services	8	-	37	37
Corporate finance services	-	42	-	-
All other services	42	-	21	-

Allchurches Trust Limited

Notes to the Financial Statements

8 Employee information

The company has no employees (2005 nil) The average monthly number of employees, including executive directors, employed by the group during the year, by geographical location was as follows

	2006		2005	
	General business	Long term business	General business	Long term business
	No.	No.	No	No
United Kingdom	811	70	788	71
Australia and New Zealand	126	-	114	-
Canada	55	-	55	-
Republic of Ireland	17	-	17	-
	1,009	70	974	71

	2006	2005
	£000	£000
Wages and salaries	35,501	32,804
Social security costs	2,919	2,555
Pension costs - defined contribution plans	534	473
Pension costs - defined benefit plans	8,193	5,603
Other post-employment benefits	878	748
	48,025	42,183

9 Directors' emoluments

No trustee received emoluments or reimbursed expenses from Allchurches Trust Limited during the year (2005 £nil) Certain trustees do however receive emoluments in their capacity as non-executive directors of subsidiary undertakings, as follows

	2006	2005
	£000	£000
The aggregate emoluments of the trustees in respect of services as non-executive directors of subsidiary undertakings	88	49
Highest paid director's fees	61	42

No trustee was a member of the group's defined benefit pension scheme during the year (2005 nil)

Allchurches Trust Limited

Notes to the Financial Statements

10 Taxation

	Long term business technical account		Non-technical account	
	2006 £000	2005 £000	2006 £000	2005 £000
<i>Group</i>				
UK corporation tax for the current financial year	409	688	8,560	11,486
Overseas tax	-	-	3,303	3,160
	409	688	11,863	14,646
Deferred tax	1,300	1,300	5,342	9,912
	1,709	1,988	17,205	24,558

UK corporation tax in the long term business technical account has been calculated at rates between 20% and 30% (2005 20% and 30%) in accordance with the rates applicable to long term insurance business

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

	Non-technical account	
	2006 £000	2005 £000
Profit on ordinary activities before tax	68,819	91,283
Tax on profit on ordinary activities at standard rate	20,646	27,385
<i>Factors affecting charge for the year</i>		
Depreciation for the period in excess of capital allowances	(631)	(379)
Unrealised investment movements and other timing differences	(4,864)	(8,230)
Dividends received	(1,222)	(1,050)
Expenses not deductible for tax purposes	451	(883)
Tax paid at non-standard rates	(2,117)	(1,687)
Tax relief on gift aid	(400)	-
Adjustments to tax charge in respect of prior years	-	(510)
Total actual amount of current tax	11,863	14,646

11 Charitable distributions

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

	Company		Group	
	Distributions £000	Donations No.	Distributions £000	Donations No.
Dioceses	4,360	110	4,360	110
Cathedrals	396	112	396	112
Panshes and other charities	609	792	654	848
Educational charities	-	-	291	37
	5,365	1,014	5,701	1,107

Due to their extensive nature, further analyses of company distributions are included in a separate publication which has been submitted to the Charity Commission. A list of individual grants to panshes and other charities can be obtained by writing to the company secretary at the address of the registered office shown on page 2. During the last ten years a total of £52.3 million (2005 £44.8 million) has been provided by group companies for church and charitable purposes.

Allchurches Trust Limited

Notes to the Financial Statements

12 Goodwill

	2006	2005
<i>Group</i>	£000	£000
Carrying value at 1 January	1,253	1,671
Amortisation	(418)	(418)
Carrying value at 31 December	835	1,253

Goodwill arose on the acquisition of a subsidiary undertaking

13 Investments

	2006			2005		
<i>Group</i>	General business £000	Long term business £000	Total £000	General business £000	Long term business £000	Total £000
Freehold land and buildings						
- occupied by the group	3,853	530	4,383	3,036	475	3,511
- other	29,835	6,372	36,207	26,411	3,548	29,959
	33,688	6,902	40,590	29,447	4,023	33,470

Other financial investments

Financial investments summarised by measurement category are as follows

Financial investments at fair value through profit and loss

Equity securities

- listed	192,304	165,550	357,854	159,279	147,554	306,833
- unlisted	19,363	150	19,513	19,535	-	19,535

Debt securities

- government bonds	212,688	70,635	283,323	223,933	62,667	286,600
- listed	85,226	56,005	141,231	83,890	50,853	134,743
- unlisted	353	353	706	312	312	624

	509,934	292,693	802,627	486,949	261,386	748,335
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Loans and receivables

Loans secured by mortgages	20,587	21,503	42,090	16,069	25,803	41,872
Other loans	8,418	85	8,503	8,880	102	8,982
	29,005	21,588	50,593	24,949	25,905	50,854

Total other financial investments	538,939	314,281	853,220	511,898	287,291	799,189
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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.

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

Allchurches Trust Limited

Notes to the Financial Statements

13 Investments (continued)

Parent

Shares in subsidiary undertakings

	2006 £000	2005 £000
Cost		
At 1 January and 31 December	50	50
Revaluation		
At 1 January	231,762	170,615
Revaluation of group undertakings	50,517	61,147
At 31 December	282,279	231,762
Net book value		
At 31 December	282,329	231,812
At 1 January	231,812	170,665

The above investments are unlisted

14 Group debtors arising out of insurance operations

(a) Group debtors arising out of direct insurance operations

	2006			2005		
	General business £000	Long term business £000	Total £000	General business £000	Long term business £000	Total £000
Policyholders	16,894	1,153	18,047	16,491	294	16,785
Intermediaries	44,574	-	44,574	36,667	-	36,667
	61,468	1,153	62,621	53,158	294	53,452

(b) Group debtors and creditors arising out of reinsurance operations

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

Allchurches Trust Limited

Notes to the Financial Statements

15 Tangible assets	Computer	Motor	Office	
<i>Group</i>	equipment	vehicles	equipment	Total
	£000	£000	£000	£000
Cost				
At 1 January 2006	22,141	2,754	4,543	29,438
Additions	3,432	890	620	4,942
Exchange movements	(204)	(11)	(107)	(322)
Disposals	(2,330)	(910)	(303)	(3,543)
At 31 December 2006	23,039	2,723	4,753	30,515
Depreciation				
At 1 January 2006	17,680	970	2,638	21,288
Provided in the year	2,122	505	467	3,094
Exchange movements	(99)	(6)	(30)	(135)
Disposals	(2,311)	(567)	(303)	(3,181)
At 31 December 2006	17,392	902	2,772	21,066
Net book value at 31 December 2006				
General business	5,348	1,662	1,981	8,991
Long term business	299	159	-	458
	5,647	1,821	1,981	9,449
Net book value at 1 January 2006				
General business	3,981	1,491	1,904	7,376
Long term business	480	293	1	774
	4,461	1,784	1,905	8,150

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

Allchurches Trust Limited

Notes to the Financial Statements

16 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 £000	2005 £000
<i>Group</i>		
The amounts recognised in the balance sheet are determined as follows		
Present value of funded obligations	(151,433)	(146,258)
Fair value of plan assets	172,365	148,166
Surplus	20,932	1,908
Related deferred tax liability	(6,279)	(550)
Net asset in the balance sheet	14,653	1,358
The amounts recognised in the consolidated profit and loss account are as follows		
<i>Service costs</i>		
Current service costs	8,110	5,497
Past service costs	83	106
Total, included in net operating expenses	8,193	5,603
<i>Other finance income/costs</i>		
Expected return on scheme assets	9,856	8,352
Interest cost on scheme liabilities	(6,881)	(5,770)
Total, included in other finance income	2,975	2,582
The amounts recognised in the consolidated statement of total recognised gains and losses are as follows		
Total actuarial gains/(losses)	18,022	(12,307)

Allchurches Trust Limited

Notes to the Financial Statements

16 Pension asset and retirement benefit obligations (continued)

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
	£000	£000
Equities	107,703	90,765
Bonds	38,432	36,001
Cash	13,796	10,468
Other	12,434	10,932
	172,365	148,166

Allchurches Trust Limited

Notes to the Financial Statements

16 Pension asset and retirement benefit obligations (continued)

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

	2006 £000	2005 £000			
<i>Scheme assets</i>					
As at 1 January	148,166	120,770			
Pension benefits paid and payable	(2,995)	(3,060)			
Contributions paid	6,219	7,867			
Expected return on scheme assets	9,856	8,352			
Actuarial gains	11,171	14,238			
Exchange differences	(52)	(1)			
As at 31 December	172,365	148,166			
<i>Defined benefit obligation</i>					
As at 1 January	146,258	111,400			
Current service cost	8,110	5,497			
Past service cost	83	106			
Pension benefits paid and payable	(2,995)	(3,060)			
Interest cost	6,881	5,770			
Actuarial (gains)/losses	(6,851)	26,545			
Exchange differences	(53)	-			
As at 31 December	151,433	146,258			
<i>History of group experience gains and losses</i>	2006 £000	2005 £000	2004 £000	2003 £000	2002 £000
Present value of defined benefit obligations	(151,433)	(146,258)	(111,400)	(94,676)	(80,362)
Fair value of scheme assets	172,365	148,166	120,770	100,961	84,125
Surplus	20,932	1,908	9,370	6,285	3,763
Experience adjustments on scheme liabilities	(1,472)	(1,780)	3,415	(933)	(1,497)
Experience adjustments on scheme assets	11,171	14,238	5,495	9,545	(14,597)

The cumulative amount of actuarial losses recognised in the consolidated statement of total recognised gains and losses since the 2002 financial year is £10,126,000 (2005 £28,148,000)

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

Allchurches Trust Limited

Notes to the Financial Statements

16 Pension asset and retirement benefit obligations (continued)

Post-employment medical benefits

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

The amounts recognised in the balance sheet are determined as follows

	2006 £000	2005 £000
Present value of unfunded obligations	8,506	7,103
Related deferred tax asset	(2,552)	(2,131)
Net obligations in the balance sheet	<u>5,954</u>	<u>4,972</u>

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

Service costs

Current service costs, included in net operating expenses

<u>878</u>	<u>748</u>
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Other finance income/costs

Interest cost on scheme liabilities, included in other finance income

<u>337</u>	<u>314</u>
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The amounts recognised in the consolidated statement of total recognised gains and losses are as follows

Total actuarial losses	<u>(305)</u>	<u>(152)</u>
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The movements in the obligations over the year are as follows

At 1 January	7,103	5,986
Current service cost	878	748
Contributions	(117)	(97)
Other finance income	337	314
Actuarial losses	<u>305</u>	<u>152</u>
At 31 December	<u>8,506</u>	<u>7,103</u>

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 £000	Decrease £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)

Allchurches Trust Limited

Notes to the Financial Statements

17 Reserves

	Translation reserve £000	Profit and loss account £000	Endowment funds £000	Total £000
<i>Group</i>				
Balance at 1 January	3,745	233,773	-	237,518
Currency translation differences	(4,316)	-	-	(4,316)
Actuarial gains relating to pension asset	-	18,022	-	18,022
Movement on deferred tax relating to pension	-	(5,425)	-	(5,425)
Actuarial losses relating to other retirement benefits	-	(305)	-	(305)
Movement on deferred tax relating to other retirement benefits	-	91	-	91
Reserve transfers	5	(5)	-	-
Gross transfers between funds	-	(5,000)	5,000	-
Transfer from profit and loss account	-	46,578	-	46,578
Premium on issue of preference shares	-	840	-	840
Balance at 31 December	(566)	288,569	5,000	293,003

The premium on issue of preference shares is disclosed as other movements in the statement of financial activities

	Unrestricted funds		Endowment funds £000	Total £000
	Income funds £000	Revaluation reserve £000		
<i>Parent</i>				
Balance at 1 January	5,756	231,762	-	237,518
Incoming resources	5,342	-	5,000	10,342
Outgoing resources	(5,374)	-	-	(5,374)
Revaluation of group undertakings	-	50,517	-	50,517
Balance at 31 December	5,724	282,279	5,000	293,003

Endowment funds are expendable endowments

18 Reconciliation of movements in group shareholders' funds

	2006 £000	2005 £000
Profit for the financial year	46,578	62,460
Other recognised gains and losses relating to the year	8,067	(4,975)
Premium on redesignation of preference shares	-	715
Premium on issue of preference shares	840	3,360
Net movement in shareholders' funds	55,485	61,560
Opening shareholders' funds	237,518	175,958
Closing shareholders' funds	293,003	237,518

19 Minority interests

Minority interests comprise 8.625% Non-Cumulative Irredeemable Preference shares in Ecclesiastical Insurance Office plc

Allchurches Trust Limited

Notes to the Financial Statements

20 Insurance liabilities and reinsurance assets

	2006	2005
<i>Group</i>	£000	£000
Gross		
Claims outstanding	420,805	384,460
Unearned premiums	170,265	166,531
Long term business provision (including technical provision for linked liabilities)	239,316	217,648
Equalisation provision	22,722	20,790
Total gross insurance liabilities	853,108	789,429
Recoverable from reinsurers		
Claims outstanding	111,781	103,566
Unearned premiums	47,184	45,304
Long term business provision (including technical provision for linked liabilities)	1,808	1,683
Total reinsurers' share of insurance liabilities	160,773	150,553
Net		
Claims outstanding	309,024	280,894
Unearned premiums	123,081	121,227
Long term business provision (including technical provision for linked liabilities)	237,508	215,965
Equalisation provision	22,722	20,790
Total net insurance liabilities	692,335	638,876

The equalisation provision, established in accordance with the Integrated Prudential Sourcebook, is required by Schedule 9A to the Companies Act 1985 to be included within technical provisions, notwithstanding that it does not represent a liability at the balance sheet date. It is in addition to the provisions required to meet the anticipated ultimate cost of settling outstanding claims at the balance sheet date. The provision has reduced shareholders' funds by £22,722,000 (2005 £20,790,000) and decreased both the balance on the general business technical account and the profit before taxation for the year by £1,932,000 (2005 £3,177,000).

Allchurches Trust Limited

Notes to the Financial Statements

20 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.

Allchurches Trust Limited

Notes to the Financial Statements

20 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 £000	Net £000	Gross £000	Net £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 table below shows 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

Allchurches Trust Limited

Notes to the Financial Statements

20 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.

Allchurches Trust Limited

Notes to the Financial Statements

20 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' funds

(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	249,820	293,003
Fund for future appropriations	38,105	-	-	38,105	-	38,105
Adjustments to assets/liabilities	(1,565)	(2,143)	2,197	(1,511)	(143,756)	(145,267)
Adjustments to actuarial liabilities	-	(4,821)	-	(4,821)	-	(4,821)
Total available capital resources	36,540	8,844	29,572	74,956	106,064	181,020
<i>Policyholder liabilities</i>						
- 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	198,344	237,518
Fund for future appropriations	29,706	-	-	29,706	-	29,706
Adjustments to assets/liabilities	(1,562)	(2,267)	2,500	(1,329)	(25,016)	(26,345)
Adjustments to actuarial liabilities	-	(7,140)	-	(7,140)	-	(7,140)
Total available capital resources	28,144	7,153	25,114	60,411	173,328	233,739
<i>Policyholder liabilities</i>						
- 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		

Allchurches Trust Limited

Notes to the Financial Statements

20 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 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 fund for future appropriations is not available to meet requirements elsewhere in the group. The capital requirements of the life business are based on the FSA capital requirements.

The group uses both its Individual Capital Assessment and its Individual Capital Guidance, 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.

Allchurches Trust Limited

Notes to the Financial Statements

20 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 (including technical provision for linked liabilities)			
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 (including technical provision for linked liabilities)			
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

Allchurches Trust Limited

Notes to the Financial Statements

20 Insurance liabilities and reinsurance assets (continued)

(d) Bonuses

In 2006, profits allocated by the with-profit fund in the form of discretionary benefits amounted to £5,467,000 (2005 £4,083,000). In valuing conventional with-profit business an implicit allowance is made for future regular bonuses by means of a 10% reduction in the valuation interest rate. For with-profit bonds an explicit allowance is made for future regular bonuses based on the current rate of 3%.

21 Investment contract liabilities

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

	2006 £000	2005 £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 contract 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.

Allchurches Trust Limited

Notes to the Financial Statements

22 Provisions for other risks and charges

	Deferred tax	Regulatory levies	Restructuring and other provisions	Total
Group	£000	£000	£000	£000
At 1 January 2006	33,017	4,222	1,200	38,439
Additional provisions	-	1,897	18	1,915
Used during year	-	(559)	(100)	(659)
Exchange differences	-	-	(7)	(7)
Other movements	7,590	-	-	7,590
At 31 December 2006	40,607	5,560	1,111	47,278

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.

23 Deferred tax

	2006 £000	2005 £000
Group		
The potential net provision for deferred tax provided in the financial statements is as follows		
Unrealised investment gains	41,803	35,424
Retirement benefit assets/(obligations)	3,727	(1,581)
Depreciation in excess of capital allowances	(1,666)	(1,878)
Other timing differences	(1,750)	(2,009)
Net provision for deferred tax	42,114	29,956
Movements in the net deferred tax provision are analysed as follows		
At 1 January	29,956	22,545
Charged to income	6,642	11,212
Credited to equity	5,334	(3,715)
Exchange differences	182	(86)
At 31 December	42,114	29,956
The net provision for deferred tax is disclosed in the financial statements as follows		
Amount included in provisions for other risks and charges	40,607	33,017
Amount included in other debtors	(2,220)	(1,480)
Amount included in net pension assets	6,279	550
Amount included in retirement benefit obligations	(2,552)	(2,131)
	42,114	29,956

The group has unused tax loss relief of £6,983,000 (2005 £7,182,000) arising from pension business and capital transactions. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

Allchurches Trust Limited

Notes to the Financial Statements

24 Other creditors including taxation and social security

	2006	2005
<i>Group</i>	<i>£000</i>	<i>£000</i>
<i>Amounts falling due within one year</i>		
Other creditors	6,985	8,717
Taxation	4,935	7,683
Corporate business loans	5,000	5,000
	<u>16,920</u>	<u>21,400</u>
<i>Amounts falling due after more than one year</i>		
Debenture stock	6,000	6,000
Corporate business loans	8,750	11,450
Other creditors	1,463	989
	<u>16,213</u>	<u>18,439</u>
	<u>33,133</u>	<u>39,839</u>
Included in other creditors are obligations under lease purchase contracts due		
In 1 year or less	232	584
Between 2 and 5 years	1,463	989
	<u>1,695</u>	<u>1,573</u>

The £6,000,000 13% Debenture Stock 2018 is secured on the assets of Ecclesiastical Insurance Group plc Except insofar as previously repaid, or purchased by the company or any of its subsidiaries and cancelled, the stock will be repaid at par on 31 August 2018

A corporate business loan of £8,750,000 (2005 £11,450,000) is secured against the assets of Allchurches Mortgage Company Limited Interest is payable at periodic London Interbank Offered Rates plus 0.7% The final maturity date for the loan facility is 23 December 2009

Allchurches Trust Limited

Notes to the Financial Statements

25 Notes to the cash flow statement

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

	2006	2005
	£000	£000
Profit on ordinary activities before tax	68,819	91,283
Depreciation charges	2,844	3,209
Amortisation of goodwill	418	418
Unrealised gains on investments	(17,708)	(36,804)
Increase in net general insurance technical provisions	36,458	26,489
Profit relating to long term business	(1,749)	(4,563)
Loan interest payable	1,581	2,177
Redeemable preference share dividends payable	-	150
Other interest payable	298	130
Realised investment (gains)/losses	(3,512)	6,392
(Gain)/loss on sale of tangible fixed assets	(1)	76
Movement in other debtors and creditors	4,343	(7,228)
Exchange and other non-cash movements	2,859	(1,792)
Net cash inflow from operating activities	94,650	79,937

(b) Movements in cash, portfolio investments and financing

	At 1 January 2006 £000	Cash flow £000	Changes in long term business £000	Exchange and other non-cash movements £000	At 31 December 2006 £000
<i>Group</i>					
Cash at bank and in hand	178,429	53,369	10,043	(3,724)	238,117
Shares and other variable yield securities	326,368	6,867	18,145	25,987	377,367
Fixed income securities	472,821	11,463	8,843	(17,274)	475,853
Land and buildings	33,470	322	2,878	3,920	40,590
	1,011,088	72,021	39,909	8,909	1,131,927
Loans due within one year	(5,000)	-	-	-	(5,000)
Loans due after one year	(17,450)	2,700	-	-	(14,750)
	988,638	74,721	39,909	8,909	1,112,177

26 Operating leases

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

	2006		2005	
	Premises £000	Equipment £000	Premises £000	Equipment £000
<i>Commitments</i>				
Expiring				
Within 1 year	143	-	38	5
Between 2 and 5 years	556	230	625	200
Over 5 years	1,391	-	1,363	4
Total	2,090	230	2,026	209
Payments included in operating expenses	2,346	377	2,202	266

Allchurches Trust Limited

Notes to the Financial Statements

27 Capital commitments

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

	2006 £000	2005 £000
Property, plant and equipment	18	456

28 Subsidiary undertakings

Subsidiaries

*Incorporated and operating in Great Britain,
engaged in investment, insurance and financial
services or other insurance related business*

	Share capital	Holding of shares by Parent Subsidiary	
Ecclesiastical Insurance Group plc	Ordinary shares	100%	
Allchurches Mortgage Company Limited	Ordinary shares	100%	
	6% Non-Cumulative Redeemable Preference Shares		100%
Ecclesiastical Insurance Office plc	Ordinary shares		100%
	8 625% Non-Cumulative Irredeemable Preference Shares		9 0%
Ecclesiastical Group Asset Management Limited	Ordinary shares		100%
Ecclesiastical Underwriting Management Limited	Ordinary shares		100%
The Churches Purchasing Scheme Limited	Ordinary shares		100%
Allchurches Investment Management Services Limited	Ordinary shares		100%
Ansvar Insurance Company Limited	Ordinary shares		100%
Ecclesiastical Life Limited	Ordinary shares		100%
Hinton and Wild (Home Plans) Limited	Ordinary shares		100%

*Incorporated and operating in Australia,
engaged in insurance business*

Ansvar Insurance Limited	Ordinary shares	100%
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*Incorporated and operating in New Zealand,
engaged in insurance business*

EIG - Ansvar Insurance (New Zealand) Limited	Ordinary shares	100%
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In addition, there are seven other wholly owned subsidiary undertakings and a 30% investment in an associated undertaking whose assets and contribution to group income are not significant

All the subsidiaries listed are included within the consolidated financial statements. Voting rights are in line with the holdings of ordinary shares.

The financial statements of Ecclesiastical Insurance Office plc and Ecclesiastical Insurance Group plc, being the parent companies of the main trading groups, are publicly available therefore a detailed analysis of their results is not presented here. Copies of the financial statements are available from the registered office as shown on page 2.

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

During the year related party transactions consisting of £331,000 (2005 £412,000) school fee annuities were accounted for by the group to Beaufort House Trust Limited, an educational charity under common control and registered at the same address. Of this £63,000 (2005 £118,000) was prepaid at the balance sheet date. This has been accounted for in the long term business technical account. In the current year the group also made a donation to Beaufort House Trust Limited of £17,500 (2005 £35,000) net of tax relief.