ALLCHURCHES TRUST LIMITED

2008 ANNUAL REPORT

Allchurches Trust Limited

2008 Annual Report

Page	Contents

Allchurches Trust Limited

Trustees

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 2008.

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.

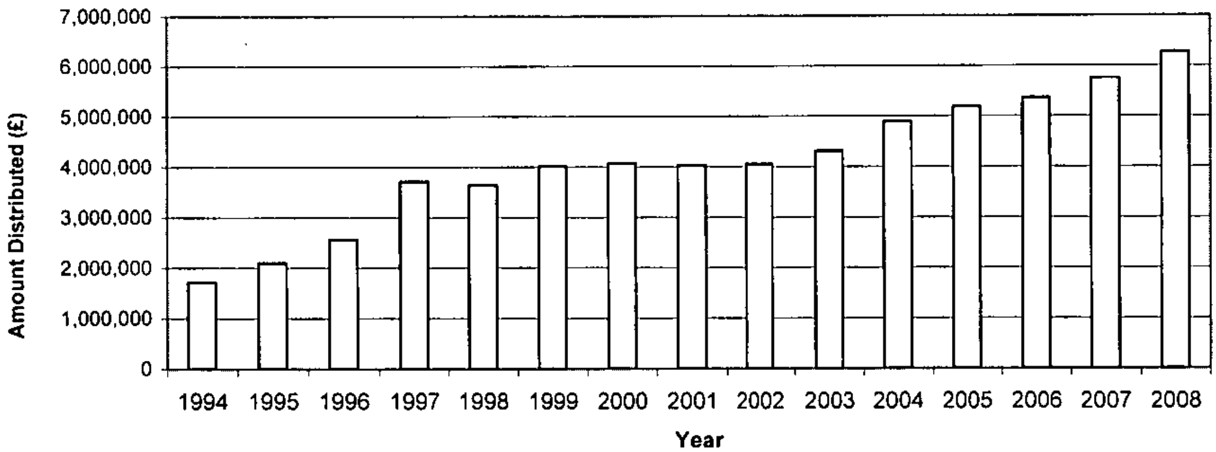
Objective
The object of the Trust is to promote the Christian Religion, to contribute to the funds of any charitable institutions, associations, funds or objects and to carry out any charitable purpose.

The Trust has adopted the following priorities in meeting its objectives:

- 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, Christian communities and other charitable 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 other charitable organisations since 1972, distributing £61.7 million over the last fifteen years.



During 2008, the Trust allocated charitable distributions amounting to £6,267,000. A breakdown of these grants is as follows:

	2008		2007	
	Distributions £000	**Donations No.**	Distributions £000	Donations No.
Dioceses	**5,000**	**110**	4,730	110
Cathedrals	**536**	**106**	469	111
Parishes and other charities	**731**	**751**	554	748
	6,267	**967**	5,753	969

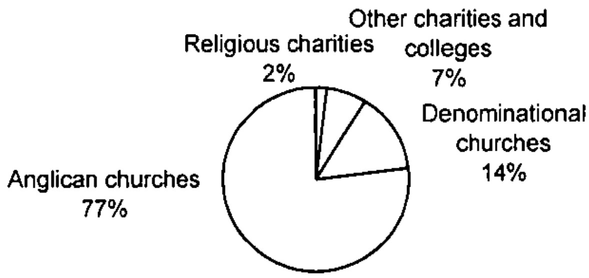
Dioceses and cathedrals
The majority of the Trust's donations are used to support the dioceses and cathedrals of the Church of England. During the year, the Trust made donations of £5.5 million (2007: £5.2 million).

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, the Christian community and other charitable organisations 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 2008, 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 Lambeth Conference, and to the Rural Life and Faith Project at the Arthur Rank Centre.

Overseas projects
During the year, the Trust allocated funds amounting to £41,000 (2007: £20,000) to support Christian causes overseas. In addition, a subsidiary company operating in Australia donated £527,000 (2007: £468,000) 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.

Lambeth Palace Library, London
A further annual donation was made towards the cost of running the Library's unique heritage of archives and manuscripts for world-wide use via the internet.

Rural Life & Faith Project
It was agreed to make a financial contribution to this project over a three year period. Funds have been given towards a research worker and the provision of training resources for rural churches and their communities.

Grants made (continued)

Cottingley Cornerstone Centre, West Yorkshire
A grant was awarded towards the cost of building a new church and community centre in a deprived area. This facility will be used by the elderly, pre-school children and youth groups.

The Children's Society, London
The Trust gave financial assistance towards the funding of focus groups relating to 'The Good Childhood Inquiry', a project that works with young offenders, refugees and the disabled.

Shallowford House, Stone, Staffordshire
A contribution was made towards the building of a new chapel and a meeting room at the Lichfield Diocese's Retreat House. This is a main training centre for Church of England clergy and includes a facility for conferences.

Chester - le - Street, Methodist Church, County Durham
A donation was made towards the rebuilding of the Church Hall to benefit the church and the wider community. Sure Start and Age Concern use the facility and on a Friday evening a youth group meeting is held here.

St Mary's Church, Shirehampton, Bristol
A donation was made towards the building of a Community Resource Centre at the Church to provide café and youth facilities.

City Arts Trust Limited, London
Financial assistance was given to this trust to enable it to work with cathedral, abbey and chapel foundations to promote and re-invigorate choral singing across the United Kingdom.

AllChurches Bureau, Wellington, New Zealand
Funds were provided for the Churches Education Commission to be used for school chaplaincy throughout New Zealand.

English Province of the Order of Preachers, Oxford
A grant was made towards the refurbishment of the Order's Priory building, to include the removal of asbestos and the upgrade of utility facilities.

St Mark's Baptist Church, Easton, Bristol
The Trust provided financial assistance towards the upgrade of the church building, adding a café and facilities for a youth club to support the church and the community.

Christ Church Cathedral, Dublin
A donation was made towards the provision of an occasional orchestra to accompany and develop the Cathedral's choir and to fund scholarships for young musicians.

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 £6.3 million (2007: £5.8 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 £7.0 million (2007: £12.7 million, which included a capital endowment of £5.0 million).

Other income of the Trust comprises interest received from cash on deposit, and dividend and interest income on the Trust's endowment fund investment portfolio.

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

Investment performance
2008 was a remarkable year, notable for large falls and exceptionally high volatility in financial markets around the world. The Trust's capital endowment fund returned negative 0.8% at a total asset level, compared to the negative 16.5% return of the WM Corp average pension fund return, an independent external benchmark. Equity returns were higher than the index returns due to a cautious approach to investment in the face of the adverse economic environment, and the relatively defensive nature of the portfolio. The fund also benefited from a high level of cash holdings throughout the year. The endowment fund investment performance is included in the company statement of financial activities on page 12.

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 65.

Ecclesiastical Insurance Office plc, the company's main subsidiary undertaking had a challenging year, in the midst of the unfolding of the credit crunch and consequent global financial turbulence. Group loss after taxation amounted to £15.4 million (2007: £26.3 million profit). Group total assets fell to £1,530.2 million (2007: £1,556.0 million) and group shareholders' funds amounted to £342.3 million (2007: £362.1 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 7 to 11 of the accounts of the Ecclesiastical Insurance Office plc, a copy of which is sent to each member of Allchurches Trust Limited.

Related parties
During the year related party transactions consisting of £135,000 (2007: £180,000) of school fee annuities were paid by the group to Beaufort House Trust Limited, a charity under common control and registered at the same address. Of this £9,000 (2007: £47,000) 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 £18,000 (2007: £17,500) net of tax relief.

Events after the balance sheet date
Details of events after the balance sheet date are contained in note 31 to the financial statements.

Going concern
The group has considerable financial resources and, as a consequence, the trustees believe the group is well placed to continue in operational existence for the foreseeable future, despite the current uncertain economic outlook. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

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 and wider 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 and throughout the year are stated on page 2.

Mr M. R. Cornwall-Jones has announced his intention to retire as chairman and trustee with effect from the conclusion of the annual general meeting on 16 July 2009. Mr N. J. E. Sealy has agreed to succeed Mr M. R. Cornwall-Jones as chairman with effect from the conclusion of the annual general meeting.

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.

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.

Mr N. J. E. Sealy and Mr H. F. Hart retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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.

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, cash on deposit and endowment portfolio of investments held. In respect of investments in group undertakings, the Trust is subject to the financial risks within those undertakings. In respect of its cash deposits and portfolio investments the Trust is exposed to interest rate risk, credit risk, currency risk and equity price risk.

Charitable and political contributions
During the course of the year the company and its subsidiary undertakings distributed from their resources £7.0 million (2007: £6.3 million) for charitable purposes. A summary of these distributions is set out in note 12. Details of individual grants have been submitted to the Charity Commission.

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

Policy on payment of creditors
It is the group's policy to pay creditors promptly and fully, in accordance with the terms of their contracts. The group has not adopted any particular external code. The number of days' purchases represented by the amounts due to trade creditors of the group at 31 December 2008, calculated in accordance with Schedule 7 of the Companies Act 1985, was 27 days (2007:18 days).

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 at least equivalent to the amount distributed in the previous financial year. In addition the trustees have resolved to retain and invest the expendable capital endowment funds to strengthen the charity's reserves.

The total amount available for charitable distribution at the end of the year was £8.9 million (2007: £7.9 million).

Investment policy
Full details of the company's investments in subsidiary undertakings are disclosed in note 32. The principal investment objective in relation to the Trust's capital endowment fund is to maximise long term investment returns through a diversified portfolio with an acceptable risk profile. Invested funds are normally expected to fall within the following ranges:

Equities	60% - 80%
Fixed interest securities	10% - 30%
Property	0% - 10%
Cash	0% - 20%
Unquoted investments	0% - 5%

The trustees regularly review the appropriateness of the investment strategy. The trustees principal obligation is to promote and protect the financial interests of the Trust and of its beneficiaries. The fund's performance will normally be reviewed on an annual basis, against an agreed benchmark provided by a suitable external performance service.

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.

Allchurches Trust Limited

Trustees' Report - Governance and Decision Making

Statement of trustees' responsibilities
The trustees are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the trustees to prepare financial statements for each financial year. Under that law the trustees have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the charity and of the group and of the profit or loss of the group for that period. In preparing these 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 UK Accounting Standards have been followed
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The trustees are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company 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 489 of the Companies Act 2006, a resolution proposing that Deloitte 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.

Public benefit
The trustees are studying the changes required by the Charity Commission that will be necessary in preparing the trustees' report for 2009 and are confident that the Trust is well placed to continue to deliver identifiable public benefit to churches and to the wider community.

By order of the board

R. Hall

Mrs R. J. Hall
Secretary
24 June 2009

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 2008 which comprise the individual company and group statement of financial activities, the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the individual company and consolidated balance sheets, the consolidated cash flow statement, the related accounting policies and notes 1 to 32. 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 2008, and the effect of the movement in those reserves during the year on the balance on the general business technical account and (loss)/profit on ordinary activities before taxation, are disclosed in note 23.

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 at 31 December 2008 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 at 31 December 2008 and of the group's loss 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 LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
30 June 2009

Allchurches Trust Limited

Company Statement of Financial Activities

for the year ended 31 December 2008

	Notes	2008 Unrestricted funds £000	2008 Endowment funds £000	2008 Total funds £000	2007 Total funds £000
Incoming resources					
Incoming resources from generated funds:					
Investment income					
Gift aid from subsidiary undertaking		7,000	-	7,000	12,700
Other investment income		349	629	978	819
Voluntary income					
Donated services and facilities		7	-	7	7
Total incoming resources		7,356	629	7,985	13,526
Resources expended					
Charitable activities					
Charitable grants	12	6,267	-	6,267	5,753
Costs of generating voluntary income					
Donated services and facilities		7	-	7	7
Governance costs		6	-	6	7
Total resources expended		6,280	-	6,280	5,767
Net incoming resources before other recognised gains and losses		1,076	629	1,705	7,759
Other recognised gains and losses					
Gains and losses on investment assets					
Movement in revaluation reserve	15	(19,821)	-	(19,821)	18,613
Other investment (losses)/gains	20	-	(697)	(697)	1,204
Total recognised gains and losses and net movement in funds		(18,745)	(68)	(18,813)	27,576
Total funds brought forward		308,769	11,810	320,579	293,003
Total funds carried forward	20	290,024	11,742	301,766	320,579

Voluntary income consists of an amount of £7,000 (2007: £7,000) 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.

The net incoming resources before other recognised gains and losses shown above represents the net income for the year for the purposes of the Companies Act 1985.

Allchurches Trust Limited

Group Statement of Financial Activities

for the year ended 31 December 2008

	Notes	2008 Unrestricted funds £000	2008 Endowment funds £000	2008 Total funds £000	2007 Total funds £000
Incoming resources					
Incoming resources from generated funds:					
Investment income					
Dividend and interest income		**349**	**629**	**978**	819
Activities for generating funds					
Trading subsidiaries (loss)/profit		**(19,760)**	**-**	**(19,760)**	27,242
Total incoming resources		**(19,411)**	**629**	**(18,782)**	28,061
Resources expended					
Charitable activities					
Charitable grants	12	**7,009**	**-**	**7,009**	6,348
Governance costs of the charity		**6**	**-**	**6**	7
Total resources expended		**7,015**	**-**	**7,015**	6,355
Net incoming resources before other recognised gains and losses		**(26,426)**	**629**	**(25,797)**	21,706
Other recognised gains and losses					
Currency translation differences		**6,149**	**-**	**6,149**	5,996
Losses on other financial investments of the charity		**-**	**(697)**	**(697)**	(46)
Actuarial gains/(losses) on retirement benefits		**1,532**	**-**	**1,532**	(80)
Total recognised gains and losses and net movement in funds		**(18,745)**	**(68)**	**(18,813)**	27,576
Total funds brought forward		**308,769**	**11,810**	**320,579**	293,003
Total funds carried forward	20	**290,024**	**11,742**	**301,766**	320,579

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

The net incoming resources before other recognised gains and losses shown above represents the net income for the year for the purposes of the Companies Act 1985.

Allchurches Trust Limited

Consolidated Profit and Loss Account

for the year ended 31 December 2008

TECHNICAL ACCOUNT - GENERAL BUSINESS		Notes	2008 £000	2007 £000
Gross premiums written		4(a)	**384,693**	365,711
Outward reinsurance premiums			**(138,521)**	(130,474)
Net premiums written		4(a)	**246,172**	235,237
Change in the gross provision for unearned premiums			**5,853**	4,857
Change in the provision for unearned premiums, reinsurers' share			**(3,552)**	(3,674)
Change in the net provision for unearned premiums			**2,301**	1,183
Earned premiums, net of reinsurance			**243,871**	234,054
Claims paid	- gross amount		**209,026**	174,321
	- reinsurers' share		**(74,155)**	(51,407)
			134,871	122,914
Change in the provision for claims	- gross amount		**17,040**	59,989
	- reinsurers' share		**3,403**	(20,732)
			20,443	39,257
Claims incurred, net of reinsurance			**155,314**	162,171
Net operating expenses		6(a)	**96,460**	79,929
Total technical charges			**251,774**	242,100
Balance on the technical account before equalisation provision			**(7,903)**	(8,046)
Change in the equalisation provision		23	**3,273**	1,437
Balance on the technical account for general business			**(4,630)**	(6,609)

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 2008

TECHNICAL ACCOUNT - LONG TERM BUSINESS		Notes	2008 £000	2007 £000
Gross premiums written		4(b)	**18,915**	21,204
Outward reinsurance premiums			**(1,522)**	(1,620)
Earned premiums, net of reinsurance			**17,393**	19,584
Investment income		5	**23,685**	23,329
Unrealised losses on investments			**(56,454)**	(8,436)
Total technical income			**(15,376)**	34,477
Claims paid	- gross amount		**33,425**	33,415
	- reinsurers' share		**(911)**	(868)
			32,514	32,547
Change in the provision for claims	- gross amount		**(455)**	(807)
	- reinsurers' share		**18**	110
			(437)	(697)
Claims incurred, net of reinsurance			**32,077**	31,850
Change in other technical provisions				
Long term business provision	- gross amount		**(11,695)**	(4,967)
	- reinsurers' share		**38**	(460)
			(11,657)	(5,427)
Technical provision for linked business			**5,109**	5,882
Provision for investment contract liabilities			**(13,893)**	(265)
Change in other technical provisions, net of reinsurance			**(20,441)**	190
Net operating expenses		6(a)	**4,366**	4,142
Investment expenses and charges		5	**796**	910
Tax attributable to long term business		11	**(3,280)**	451
Transfer to the fund for future appropriations			**(23,962)**	1,731
			(22,080)	7,234
Total technical charges			**(10,444)**	39,274
Balance on the technical account for long term business			**(4,932)**	(4,797)

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 2008

NON-TECHNICAL ACCOUNT		Notes	2008 £000	2007 £000
Balance on the general business technical account			**(4,630)**	(6,609)
Balance on the long term business technical account			**(4,932)**	(4,797)
			(9,562)	(11,406)
Investment income		5	**46,526**	47,406
Unrealised (losses)/gains on investments			**(53,501)**	2,788
Investment expenses and charges		5	**(3,388)**	(2,683)
Other finance income		19	**2,839**	3,598
Other operations			**(1,734)**	(191)
Other charges		6(b)	**(2,162)**	(429)
Charitable grants		12	**(7,009)**	(6,348)
			(18,429)	44,141
Operating (loss)/profit	- acquisitions	13	**913**	-
	- other continuing operations		**(32,177)**	31,298
Change in equalisation provision		23	**3,273**	1,437
(Loss)/profit on ordinary activities before tax		4(c)	**(27,991)**	32,735
Tax credit/(charge) on profit on ordinary activities		11	**6,711**	(5,861)
(Loss)/profit on ordinary activities after tax			**(21,280)**	26,874
Minority interests		22	**(5,214)**	(5,214)
Retained (loss)/profit for the financial year		20	**(26,494)**	21,660

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 December 2008

		2008 £000	2007 £000
Retained (loss)/profit for the financial year		**(26,494)**	21,660
Currency translation differences		**6,149**	5,996
Actuarial (losses)/gains relating to pension asset		**(1,678)**	1,550
Movement on deferred tax relating to pension asset		**421**	(438)
Actuarial gains/(losses) relating to other retirement benefits		**3,874**	(1,647)
Movement on deferred tax relating to other retirement benefits		**(1,085)**	455
Total recognised gains and losses for the financial year	21	**(18,813)**	27,576

Allchurches Trust Limited

Parent Company Balance Sheet

at 31 December 2008

	Notes	2008 Unrestricted funds £000	2008 Endowment funds £000	2008 Total funds £000	2007 Total funds £000
Fixed assets					
Investments	15	**281,121**	**8,599**	**289,720**	301,989
Current assets					
Prepayments and accrued income		**2,999**	**145**	**3,144**	-
Cash at bank and in hand		**5,983**	**2,998**	**8,981**	18,673
		8,982	**3,143**	**12,125**	18,673
Liabilities					
Creditors: amounts falling due within one year		**79**	**-**	**79**	83
Net current assets		**8,903**	**3,143**	**12,046**	18,590
Net assets		**290,024**	**11,742**	**301,766**	320,579
The funds of the charity					
Unrestricted funds					
Unrestricted income funds	20	**8,953**	**-**	**8,953**	7,877
Revaluation reserve	20	**281,071**	**-**	**281,071**	300,892
		290,024	**-**	**290,024**	308,769
Endowment funds	20	**-**	**11,742**	**11,742**	11,810
Total charity funds		**290,024**	**11,742**	**301,766**	320,579

The financial statements on pages 12 to 65 were approved by the Board on 24 June 2009 and signed on its behalf by

M. R. CORNWALL-JONES Chairman

W. H. YATES Trustee

Allchurches Trust Limited

Consolidated Balance Sheet

at 31 December 2008

	Notes	2008 Unrestricted funds £000	2008 Endowment funds £000	2008 Total funds £000	2007 Total funds £000
ASSETS					
Intangible assets	14	18,999	-	18,999	417
Investments					
Land and buildings	15	28,893	-	28,893	37,914
Other financial investments	15	939,725	8,599	948,324	947,023
		968,618	8,599	977,217	984,937
Reinsurers' share of technical provisions					
Provision for unearned premiums	23	57,209	-	57,209	52,076
Long term business provision	23	2,230	-	2,230	2,268
Claims outstanding	23	139,482	-	139,482	134,915
		198,921	-	198,921	189,259
Debtors					
Debtors arising out of direct insurance operations	17(a)	71,977	-	71,977	68,933
Debtors arising out of reinsurance operations	17(b)	9,890	-	9,890	13,217
Other debtors		12,787	-	12,787	9,517
		94,654	-	94,654	91,667
Other assets					
Tangible assets	18	10,818	-	10,818	8,877
Cash at bank and in hand		132,688	2,998	135,686	178,190
		143,506	2,998	146,504	187,067
Prepayments and accrued income					
Accrued interest and rent		8,443	126	8,569	8,510
Deferred acquisition costs		34,048	-	34,048	31,751
Other prepayments and accrued income		3,709	19	3,728	3,025
		46,200	145	46,345	43,286
Total assets excluding pension assets		1,470,898	11,742	1,482,640	1,496,633
Pension assets	19	19,418	-	19,418	18,287
Total assets	4(e)	1,490,316	11,742	1,502,058	1,514,920

Allchurches Trust Limited

Consolidated Balance Sheet

at 31 December 2008

	Notes	2008 Unrestricted funds £000	2008 Endowment funds £000	2008 Total funds £000	2007 Total funds £000
LIABILITIES					
Reserves					
Translation reserve	20	11,579	-	11,579	5,430
Profit and loss account	20	278,445	-	278,445	303,339
Endowment funds	20	-	11,742	11,742	11,810
		290,024	11,742	301,766	320,579
Minority interests	22	60,453	-	60,453	60,453
Fund for future appropriations		15,874	-	15,874	39,836
Technical provisions					
Provision for unearned premiums	23	190,570	-	190,570	179,468
Long term business provision	23	180,240	-	180,240	191,935
Claims outstanding	23	531,931	-	531,931	489,770
Equalisation provision	23	18,012	-	18,012	21,285
		920,753	-	920,753	882,458
Technical provision for linked liabilities	23	53,405	-	53,405	48,296
Investment contract liabilities	24	40,943	-	40,943	54,919
Provisions for other risks and charges	25	35,646	-	35,646	47,504
Creditors					
Creditors arising out of direct insurance operations		2,407	-	2,407	1,999
Creditors arising out of reinsurance operations	17(b)	14,699	-	14,699	11,350
Other creditors including taxation and social security	27	21,825	-	21,825	17,128
		38,931	-	38,931	30,477
Accruals and deferred income		30,672	-	30,672	22,152
Total liabilities excluding retirement benefit obligations		1,486,701	11,742	1,498,443	1,506,674
Retirement benefit obligations	19	3,615	-	3,615	8,246
Total liabilities		1,490,316	11,742	1,502,058	1,514,920

Allchurches Trust Limited

Consolidated Cash Flow Statement

for the year ended 31 December 2008 (excluding long term insurance business)

	Notes	2008 £000	2007 £000
Net cash inflow from operating activities	28(a)	**54,542**	47,624
Servicing of finance			
Loan interest paid		**(780)**	(1,093)
Preference dividends paid to minority interests		**(5,214)**	(5,214)
Other interest paid		**(222)**	(152)
Taxation paid		**(911)**	(11,988)
Capital expenditure			
Purchase of tangible fixed assets		**(4,530)**	(2,182)
Proceeds from the disposal of fixed assets		**48**	75
Acquisitions and disposals	13	**(20,781)**	-
Financing			
Capital element of lease purchase rental payments		**(398)**	(368)
Repayment of long term business loan		**-**	(13,750)
	28(b)	**21,754**	12,952
Cash flows were invested as follows:			
Decrease in cash holdings		**(51,969)**	(46,516)
Portfolio investment			
Purchases of shares and other variable yield securities		**25,578**	16,440
Purchases of fixed income securities		**346,236**	215,545
Purchases of properties		**-**	1,186
Sales of shares and other variable yield securities		**(10,012)**	(19,281)
Sales of fixed income securities		**(288,079)**	(154,422)
Net investment of cash flows		**21,754**	12,952
Movement arising from cash flows		**21,754**	12,952
Movement in long term business		**(45,821)**	(8,645)
Repayment of long term business loan		**-**	13,750
Changes in market values and exchange rate effects		**(26,157)**	26,893
Total movement in portfolio investments net of financing		**(50,224)**	44,950
Portfolio investments net of financing at 1 January		**1,157,127**	1,112,177
Portfolio investments net of financing at 31 December	28(b)	**1,106,903**	1,157,127

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.

The group has considerable financial resources and, as a consequence, the trustees believe the group is well placed to continue in operational existence for the foreseeable future, despite the current uncertain economic outlook. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

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.

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
Unrestricted funds of the charity consist of funds available to the trustees to apply for the general purposes of the charity, in addition to amounts designated for each of the priorities adopted by the Trust as set out in the trustees' report on page 3. The trustees have the power to re-designate such funds within 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.

Foreign exchange
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.

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 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. Reinsurance recoveries are accounted for in the same period as the related claim. 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 1 of the 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 Prudential sourcebook for Insurers. This statutory solvency basis of valuation is then adjusted by eliminating or adjusting certain reserves advised under insurance companies regulations and general contingency reserves. This adjusted basis is referred to as the modified statutory solvency basis. The consequent long term business provision is grossed up for the impact of reinsurance.

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.

Intangible assets

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings, 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.

Other intangible assets

Other intangible assets consist of acquired customer and distribution relationships, and are carried at cost at acquisition less accumulated amortisation after acquisition. Amortisation is on a straight-line basis over the weighted average estimated useful life of intangible assets acquired.

The amortisation charge for goodwill and other intangibles for the period is included in the profit and loss account under other charges.

Financial instruments

FRS 26 requires the classification of certain financial assets and liabilities into separate categories for which the accounting requirements differ.

The classification depends on the nature and purpose of the financial assets and liabilities, and is determined at the time of initial recognition. Financial instruments are initially measured at fair value. Their subsequent measurement depends on their classification:

- financial instruments designated as at fair value through profit and loss and those held for trading are subsequently carried at fair value. Changes in fair value are included in the profit and loss account in the period in which they arise
- all other financial assets and liabilities are held at amortised cost, using the effective interest method (except for short-term debtors and creditors when the recognition of interest would be immaterial).

The directors consider that the carrying value of those financial assets and liabilities not carried at fair value in the financial statements approximates to their fair value.

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 these investments as either financial assets at fair value through profit and loss (designated as such or held for trading) or loans and receivables.

(i) Financial assets at fair value through profit and loss

Investments are classified into this category if they are managed, and their performance evaluated, on a fair value basis. Purchases and sales of these investments are recognised on the trade date, which is the date that the group commits to purchase or sell the assets, at their fair value adjusted for transaction costs. Investments within this category are classified as held for trading if they are derivatives or acquired principally for the purpose of selling in the near term.

The fair values of investments are based on quoted bid prices. Where there is no active market, fair value is established using a valuation technique based on observable market data.

(ii) Loans and receivables

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.

Derivative financial instruments

Derivative financial instruments include financial instruments that derive their value from underlying equity instruments. 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. All derivatives are initially recognised in the balance sheet at their fair value, which usually represents their cost, including any premium paid. They are subsequently re-measured at their fair value with changes in the fair value recognised immediately in the profit and loss account. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the balance sheet as they do not represent the fair value of these transactions. Collateral pledged by way of cash margins on futures contracts is recognised as an asset on the balance sheet within cash at bank and in hand.

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. Unrealised gains and losses on investments held by the parent company are included as other recognised gains and losses in the statement of financial activities.

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.

Insurance broking debtors and creditors
Where the group acts as agent in placing the insurable risks of clients with insurers, debtors arising from such transactions are not included within the group's assets. When the group receives cash in respect of resultant premiums or claims, a corresponding liability is established in other creditors in favour of the insurer or client. Where the group provides premium finance facilities to clients, amounts due are included within other debtors, with the amount owing for onward transmission included in other creditors.

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.

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 estimates established using statistical techniques.

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.

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.

(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.

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				
2008		**Property £000**	**Liability £000**	**Motor £000**	**Accident £000**	**Total £000**
Territory						
United Kingdom	Gross	**202,698**	**62,130**	**20,975**	**6,816**	**292,619**
	Net	**109,947**	**55,145**	**19,419**	**6,476**	**190,987**
Australia and New Zealand	Gross	**44,440**	**11,808**	**8,382**	**428**	**65,058**
	Net	**16,491**	**10,065**	**8,099**	**377**	**35,032**
Canada	Gross	**13,132**	**4,315**	**-**	**-**	**17,447**
	Net	**9,070**	**3,897**	**-**	**-**	**12,967**
Other overseas	Gross	**5,941**	**3,584**	**5**	**39**	**9,569**
	Net	**3,845**	**3,299**	**5**	**37**	**7,186**
Total	Gross	**266,211**	**81,837**	**29,362**	**7,283**	**384,693**
	Net	**139,353**	**72,406**	**27,523**	**6,890**	**246,172**
2007						
Territory						
United Kingdom	Gross	197,148	65,587	20,644	6,880	290,259
	Net	107,006	58,322	19,051	6,495	190,874
Australia and New Zealand	Gross	35,655	11,615	7,550	467	55,287
	Net	13,039	9,846	7,268	368	30,521
Canada	Gross	11,229	3,748	-	-	14,977
	Net	7,367	3,414	-	-	10,781
Other overseas	Gross	3,427	1,743	-	18	5,188
	Net	1,505	1,538	-	18	3,061
Total	Gross	247,459	82,693	28,194	7,365	365,711
	Net	128,917	73,120	26,319	6,881	235,237

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 23 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.

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 at 31 December 2008			
Life assurance	**67,666**	**45,318**	**112,984**
Pensions assurance	**37,656**	**-**	**37,656**
Pensions annuities in payment	**-**	**69,192**	**69,192**
Life annuities in payment	**-**	**11,203**	**11,203**
Permanent health insurance	**-**	**380**	**380**
Total	**105,322**	**126,093**	**231,415**
Investment products	**-**	**40,943**	**40,943**
Total technical provisions excluding outstanding claims, net of reinsurance	**105,322**	**167,036**	**272,358**
Long term business provision at 31 December 2007			
Life assurance	77,539	43,030	120,569
Pensions assurance	37,216	-	37,216
Pensions annuities in payment	-	65,611	65,611
Life annuities in payment	-	14,147	14,147
Permanent health insurance	-	420	420
Total	114,755	123,208	237,963
Investment products	-	54,919	54,919
Total technical provisions excluding outstanding claims, net of reinsurance	114,755	178,127	292,882

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.

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 on total reserves.

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

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

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 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 the policies (their asset share) at maturity or at the point of surrender, represents the net cost of the guarantees. For maturities in 2009, this net cost is expected to total £0.6 million (2007: £1.1 million expected for 2008) and for surrenders it is expected to total £0.1 million (2007: £0.2 million expected for 2008). 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 £1.4 million (2007: £1.8 million) and £0.2 million (2007: £0.3 million) respectively.

No market value reduction (MVR) guarantees

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

- on partial withdrawals of the bond not exceeding 7.5% per annum of the original amount invested;
- on withdrawals from the deposit administration contract for the purchase of immediate annuities for individual members; and
- on withdrawal of all benefits over a 10 year period.

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 2009 is expected to total £0.7 million (2007: £0.1 million expected for 2008). 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 £0.9 million (2007: increase to £0.2 million).

With-profit guaranteed regular bonus rates

Until 31 December 2009, 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.

2 Financial risk and capital management
The group is exposed to financial risk through its financial assets, financial liabilities, 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.

Although the external environment has changed dramatically over the last year, there has been no change from the prior period in the nature of financial risks that the group is exposed to. The group's management and measurement of financial risks is informed by either stochastic modelling or stress testing techniques.

Categories of financial instruments

	Financial assets			Financial liabilities				
Group	Designated at fair value	Held for trading	Loans and receivables*	Designated at fair value	Held for trading	At amortised cost	Other assets and liabilities	Total
	£000	**£000**	**£000**	**£000**		**£000**	**£000**	**£000**
At 31 December 2008								
Other financial investments	**911,536**	**4,081**	**32,707**	-	-	-	-	**948,324**
Debtors	-	-	**91,612**	-	-	-	**3,042**	**94,654**
Cash at bank and in hand	-	-	**135,686**	-	-	-	-	**135,686**
Prepayments and accrued income	-	-	**9,035**	-	-	-	**37,310**	**46,345**
Investment contract liabilities	-	-	-	**(40,943)**	-	-	-	**(40,943)**
Creditors	-	-	-	-	**(999)**	**(29,353)**	**(8,579)**	**(38,931)**
Accruals and deferred income	-	-	-	-	-	**(10,272)**	**(20,400)**	**(30,672)**
Net other	-	-	-	-	-	-	**(812,697)**	**(812,697)**
Total	**911,536**	**4,081**	**269,040**	**(40,943)**	**(999)**	**(39,625)**	**(801,324)**	**301,766**

** Cash at bank and in hand is presented with loans and receivables.*

Allchurches Trust Limited

Notes to the Financial Statements

2 Financial risk and capital management (continued)
Categories of financial instruments (continued)

Group	Financial assets			Financial liabilities				
	Designated at fair value	Held for trading	Loans and receivables*	Designated at fair value	Held for trading	At amortised cost	Other assets and liabilities	Total
	£000	**£000**	**£000**	**£000**		**£000**	**£000**	**£000**
At 31 December 2007								
Other financial investments	898,827	1,685	46,511	-	-	-	-	947,023
Debtors	-	-	85,847	-	-	-	5,820	91,667
Cash at bank and in hand	-	-	178,190	-	-	-	-	178,190
Prepayments and accrued income	-	-	8,995	-	-	-	34,291	43,286
Investment contract liabilities	-	-	-	(54,919)	-	-	-	(54,919)
Creditors	-	-	-	-	-	(22,684)	(7,793)	(30,477)
Accruals and deferred income	-	-	-	-	-	(5,490)	(16,662)	(22,152)
Net other	-	-	-	-	-	-	(832,039)	(832,039)
Total	898,827	1,685	319,543	(54,919)	-	(28,174)	(816,383)	320,579

Parent	Financial assets			Financial liabilities				
	Designated at fair value	Held for trading	Loans and receivables*	Designated at fair value	Held for trading	At amortised cost	Other assets and liabilities	Total
	£000	**£000**	**£000**	**£000**		**£000**	**£000**	**£000**
At 31 December 2008								
Investments	**8,599**	-	-	-	-	-	**281,121**	**289,720**
Prepayments and accrued income	-	-	**3,144**	-	-	-	-	**3,144**
Cash at bank and in hand	-	-	**8,981**	-	-	-	-	**8,981**
Creditors: due within one year	-	-	-	-	-	**(79)**	-	**(79)**
Total	**8,599**	-	**12,125**	-	-	**(79)**	**281,121**	**301,766**
At 31 December 2007								
Investments	1,047	-	-	-	-	-	300,942	301,989
Cash at bank and in hand	-	-	18,673	-	-	-	-	18,673
Creditors: due within one year	-	-	-	-	-	(83)	-	(83)
Total	1,047	-	18,673	-	-	(83)	300,942	320,579

** Cash at bank and in hand is presented with loans and receivables.*

2 Financial risk and capital management (continued)
(a) Interest rate risk

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

	Effective interest rate	Maturing within: 1 year or less	2-5 years	More than 5 years	Total
Group	%	£000	£000	£000	£000
At 31 December 2008					
Assets:					
Debt securities	5.3	88,833	305,841	224,122	618,796
Mortgage and other loans	5.2	3,799	957	15,467	20,223
Non-profit reinsurers' share of long term business provisions	n/a	1,716	277	179	2,172
Other assets including insurance receivables	6.4	40,223	-	-	40,223
Cash at bank and in hand	1.6	135,686	-	-	135,686
		270,257	307,075	239,768	817,100
Liabilities:					
13% Debenture Stock 2018	13.0	-	-	6,000	6,000
Finance lease obligations	11.5	371	1,215	-	1,586
Non-profit long term business provisions	n/a	2,898	1,905	123,462	128,265
Investment contract liabilities	n/a	1,917	4,977	34,049	40,943
		5,186	8,097	163,511	176,794
At 31 December 2007					
Assets:					
Debt securities	4.1	68,361	244,440	193,689	506,490
Mortgage and other loans	7.4	257	1,185	16,885	18,327
Non-profit reinsurers' share of long term business provisions	n/a	1,783	352	75	2,210
Other assets including insurance receivables	6.2	28,807	-	-	28,807
Cash at bank and in hand	4.6	178,190	-	-	178,190
		277,398	245,977	210,649	734,024
Liabilities:					
13% Debenture Stock 2018	13.0	-	-	6,000	6,000
Finance lease obligations	9.6	328	1,279	-	1,607
Non-profit long term business provisions	n/a	3,267	2,826	119,325	125,418
Investment contract liabilities	n/a	2,210	6,701	46,008	54,919
		5,805	10,806	171,333	187,944

2 Financial risk and capital management (continued)

Parent	Effective interest rate %	Maturing within: 1 year or less £000	2-5 years £000	More than 5 years £000	Total £000
At 31 December 2008					
Assets:					
Debt securities	5.7	1,006	897	3,612	5,515
Cash at bank and in hand	1.5	8,981	-	-	8,981
		9,987	897	3,612	14,496
At 31 December 2007					
Assets:					
Cash at bank and in hand	5.8	18,673	-	-	18,673
		18,673	-	-	18,673

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 and hence are not included in the above tables.

Financial investments represent a significant proportion of the group's assets. Investment strategy is set in order to control the impact of interest rate risk on anticipated group cash flows and asset values. The fair value of the group's investment portfolio of debt and fixed income securities reduces as market interest rates rise, and vice versa. Interest rate risk concentration is reduced by the varied maturity profiles of the investments.

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.

2 Financial risk and capital management (continued)

(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. Collateral is held over loans secured by mortgages.

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

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

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

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

The 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. This is not considered to be a significant risk to the group.

2 Financial risk and capital management (continued)

(d) Currency risk

The group operates internationally and its main exposures to foreign exchange risk are noted below. 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 year-end date.

The largest currency exposures with reference to net assets/(liabilities) are shown below, representing effective diversification of resources:

	2008		2007	
	Group £000	**Parent £000**	Group £000	Parent £000
Euro	**55,222**	**330**	55,471	-
Aus $	**31,011**	**-**	38,963	-
Can $	**28,385**	**-**	24,288	-
US $	**(7,935)**	**-**	21,681	-
Hong Kong $	**6,756**	**458**	18,132	-

(e) Equity price risk

The group is exposed to equity price risk because of financial investments held by the group and stated at fair value through profit and loss. The group mitigates this risk by holding a diversified portfolio across geographical regions and market sectors, and through the use of options and futures contracts from time to time which would limit losses in the event of a fall in equity markets.

The concentration of equity price risk by geographical listing, before the mitigating effect of derivatives, to which the group and parent are exposed is as follows:

	2008		2007	
	Group £000	**Parent £000**	Group £000	Parent £000
UK	**87,386**	**2,072**	130,537	873
Europe	**48,431**	**231**	48,625	174
Hong Kong	**6,379**	**403**	7,176	-
USA	**6,040**	**-**	6,722	-
Other	**20,023**	**378**	22,708	-
Total	**168,259**	**3,084**	215,768	1,047

2 Financial risk and capital management (continued)

(f) Market risk sensitivity analysis

The sensitivity of profit and other reserves to movements on market risk variables (comprising interest rate, currency and equity price risk), each considered in isolation, is shown in the following table:

Variable	Change in variable	Potential increase/ (decrease) in profit 2008 £000	Potential increase/ (decrease) in profit 2007 £000	Potential changes in other reserves 2008 £000	Potential changes in other reserves 2007 £000
Group					
Interest rate risk	-100 basis points	**12,704**	8,144	**238**	106
	+100 basis points	**(12,724)**	(7,699)	**(228)**	(105)
Currency risk	-5%	**2,739**	4,889	**3,366**	2,809
	+5%	**(2,602)**	(4,645)	**(3,198)**	(2,669)
Equity price risk	+/-5%	**8,413**	10,788	**-**	-
Parent					
Interest rate risk	-100 basis points	**216**	-	**-**	-
	+100 basis points	**(191)**	-	**-**	-
Currency risk	-5%	**45**	6	**-**	-
	+5%	**(42)**	(6)	**-**	-
Equity price risk	+/-5%	**154**	52	**-**	-

The following assumptions have been made in preparing the above sensitivity analysis:

- the value of fixed income investments will vary inversely with changes in interest rates, and all territories experience the same interest rate movement
- currency gains and losses will arise from a change in the value of sterling against all other currencies moving in parallel
- equity prices will move by the same percentage across all territories
- the above analysis is based only on exposures borne by the group, and thus excludes those of with-profit and unit-linked business
- change in profit is stated net of tax at the standard rate of 28% (2007: 30%).

(g) Capital management

The group's objectives when managing capital are:

- to comply with the regulators' capital requirements of the markets in which the group operates
- to safeguard the group's ability to continue to meet stakeholders' expectations, in accordance with its corporate mission, vision and values.

The group is subject to insurance solvency regulations in all the territories in which it issues insurance and investment contracts, and capital is managed and evaluated on the basis of regulatory capital.

In the UK, the group's UK regulated entities are required to comply with rules issued by the Financial Services Authority (FSA), and submit FSA returns detailing levels of regulatory capital held. Regulatory capital should be in excess of the higher of two amounts. The first is an amount which is calculated by applying fixed percentages to premiums and claims (general insurance business) or by applying fixed percentages to insurance liabilities and applying stress testing (long term business). The second is an economic capital assessment by the regulated entity, which the FSA reviews and may amend by issuing Individual Capital Guidance (ICG). The group sets internal capital standards above the FSA's minimum requirement. For overseas business the relevant capital requirement is the minimum requirement under the local regulatory regime. With the exception as noted below, all regulated entities within the group have complied with all externally imposed capital requirements throughout the year.

During the year the adverse conditions in the financial markets resulted in the regulatory capital of an insurance subsidiary of the group not always exceeding its ICG, although it remained above the regulatory minimum at all times.

Regulated subsidiaries are restricted in the amount of cash dividends they transfer to the parent entity, in order for them to meet their individual minimum capital requirements.

The group's available capital resource is disclosed in note 23(b) part (iv).

3 Exchange rates

The principal rates of exchange used for translation are:	2008 Average	2008 Closing	2007 Average	2007 Closing
Canada	**C$ 1.96**	**C$ 1.77**	C$ 2.14	C$ 1.96
Republic of Ireland	**€ 1.26**	**€ 1.03**	€ 1.46	€ 1.36
Australia	**A$ 2.18**	**A$ 2.06**	A$ 2.38	A$ 2.27

4 Group segmental analysis

(a) General business premiums

	2008 Gross £000	2008 Net £000	2007 Gross £000	2007 Net £000
Direct:				
Accident	**6,993**	**6,615**	7,092	6,620
Motor	**29,362**	**27,523**	28,194	26,319
Property	**209,750**	**101,496**	193,496	91,627
Liability	**80,099**	**70,762**	81,151	71,732
	326,204	**206,396**	309,933	196,298
Reinsurance accepted and London market	**58,489**	**39,776**	55,778	38,939
Total	**384,693**	**246,172**	365,711	235,237

Geographical analysis - on the basis of location of office

	2008 Gross £000	2008 Net £000	2007 Gross £000	2007 Net £000
United Kingdom	**292,619**	**190,987**	290,259	190,874
Australia and New Zealand	**65,058**	**35,032**	55,287	30,521
Canada	**17,447**	**12,967**	14,977	10,781
Other overseas	**9,569**	**7,186**	5,188	3,061
Total	**384,693**	**246,172**	365,711	235,237

(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 and Republic of Ireland.

The analysis of long term business premiums written before reinsurance is:	2008 £000	2007 £000
Life insurance business		
- Single premiums	**9,888**	10,316
- Regular premiums	**3,118**	3,682
Annuity business		
- Single premiums	**2,800**	4,228
Pension business		
Non-linked contracts		
- Single premiums	**1,246**	89
- Regular premiums	**1,763**	2,792
Permanent health insurance	**100**	97
	18,915	21,204
Gross new annualised regular premiums		
Life insurance	**110**	27
Pensions	**425**	402
	535	429

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.

4 Group segmental analysis (continued)

(c) (Loss)/profit before taxation

	2008 £000	2007 £000
United Kingdom	**(36,884)**	27,427
Australia and New Zealand	**5,456**	3,443
Canada	**1,907**	1,244
Other overseas	**1,530**	621
Total	**(27,991)**	32,735

(d) Net assets

	2008 £000	2007 £000
United Kingdom	**235,953**	267,205
Australia and New Zealand	**35,323**	27,810
Canada	**28,280**	24,233
Other overseas	**2,210**	1,331
Total	**301,766**	320,579

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, £307.0 million (2007: £347.6 million) are attributable to the long term business fund.

5 Investment return

	2008		2007	
Group	**General business £000**	**Long term business £000**	General business £000	Long term business £000
Land and buildings	**1,715**	**415**	1,766	423
Income on financial assets not at fair value through profit and loss	**14,296**	**3,070**	12,547	3,016
Income on financial assets at fair value through profit and loss	**30,515**	**12,324**	23,949	11,754
Realised investment gains	**-**	**7,876**	9,144	8,136
Investment income	**46,526**	**23,685**	47,406	23,329
Investment expenses and charges:				
Interest payable on financial liabilities, at amortised cost	**1,001**	**252**	1,063	162
Other investment management expenses	**1,352**	**544**	1,620	748
Total investment management expenses, including interest	**2,353**	**796**	2,683	910
Realised investment losses	**1,035**	**-**	-	-
Investment expenses and charges	**3,388**	**796**	2,683	910
Net investment return	**43,138**	**22,889**	44,723	22,419

Investment management expenses include debenture interest payable of £780,000 (2007: £780,000) and corporate business loan interest payable in the prior year of £125,000.

Included within income on financial assets not at fair value through profit and loss are exchange gains of £6,597,000 (2007: £1,656,000 gains) for the general business, and exchange gains of £1,150,000 (2007: £466,000 gains) for the long term business.

6 Group expenses	2008		2007	
	General business £000	**Long term business £000**	General business £000	Long term business £000
(a) Net operating expenses				
Commission paid on direct business	**50,195**	**789**	48,125	566
Other acquisition costs	**20,378**	**1,937**	18,003	2,890
Change in deferred acquisition costs	**(1,462)**	**162**	(1,503)	42
Administrative expenses	**61,009**	**2,410**	51,764	1,883
Reinsurance commissions and profit participation	**(33,660)**	**(932)**	(36,460)	(1,239)
	96,460	**4,366**	79,929	4,142
(b) Other charges				
Amortisation of goodwill and other intangibles	**2,129**	**-**	418	-
Other expenses	**33**	**-**	11	-
	2,162	**-**	429	-

7 Group operating result	2008		2007	
	General business £000	**Long term business £000**	General business £000	Long term business £000
Operating profit or loss has been arrived at after charging/(crediting):				
Net foreign exchange gains	**(6,597)**	**(1,150)**	(1,656)	(466)
Depreciation - owned assets	**2,958**	**78**	2,648	124
- leased assets	**362**	**10**	413	39
Fair value (gains)/losses on investments designated at fair value through profit and loss	**45,689**	**47,074**	(15,912)	(462)
Fair value losses/(gains) on investments held for trading	**1,787**	**(491)**	-	(310)
Interest payments under lease purchase contracts	**157**	**7**	152	7

8 Auditors' remuneration	2008		2007	
	General business £000	**Long term business £000**	General business £000	Long term business £000
Fees payable to the company's auditor for the audit of the company's annual accounts	**3**	**-**	3	-
Fees payable to the company's auditor and its associates for other services:				
The audit of the company's subsidiaries, pursuant to legislation	**381**	**45**	353	43
	384	**45**	356	43
Other services pursuant to legislation	**108**	**67**	121	61
Tax services	**16**	**17**	29	-
Corporate finance services	**16**	**-**	235	-
All other services	**35**	**-**	39	-
Total auditors' remuneration	**559**	**129**	780	104

Other services pursuant to legislation represents FSA and other regulatory audit work.

9 Employee information

The company has no employees (2007: nil). The average monthly number of employees, including executive directors, employed by the group during the year, by geographical location was as follows:

	2008		2007	
	General business No.	Long term business No.	General business No.	Long term business No.
United Kingdom	886	31	853	52
Australia and New Zealand	156	-	132	-
Canada	58	-	55	-
Republic of Ireland	22	-	16	-
	1,122	31	1,056	52

	2008 £000	2007 £000
Wages and salaries	46,178	37,374
Social security costs	3,383	2,964
Pension costs - defined contribution plans	1,331	886
Pension costs - defined benefit plans	7,648	7,404
Other post-employment benefits	(3,146)	993
	55,394	49,621

10 Directors' emoluments

No trustee received emoluments from Allchurches Trust Limited during the year (2007: £nil). Certain trustees do however receive emoluments in their capacity as non-executive directors of subsidiary undertakings, as follows:

	2008 £000	2007 £000
The aggregate emoluments of the trustees in respect of services as non-executive directors of subsidiary undertakings	68	75

The chairman was reimbursed £15,000 by the group (2007: £15,000) in respect of the cost of running his office and the provision of secretarial assistance.

No trustee was a member of the group's defined benefit pension scheme during the year (2007: nil).

11 Taxation	Long term business technical account		Non-technical account	
	2008	2007	**2008**	2007
Group	**£000**	£000	**£000**	£000
UK corporation tax for the current financial year	**580**	1,591	**2,816**	3,940
Overseas tax	**-**	-	**1,749**	2,095
	580	1,591	**4,565**	6,035
Deferred tax	**(3,860)**	(1,140)	**(11,276)**	(174)
	(3,280)	451	**(6,711)**	5,861

UK corporation tax in the long term business technical account has been calculated at rates between 20% and 30% (2007: 20% and 30%) in accordance with the rates applicable to long term insurance business.

The UK standard rate of corporation tax changed to 28% from 30% with effect from 1 April 2008. Deferred tax has been provided at the rate of 28% (2007: 28%). Current tax is provided for at the blended standard rate of 28.5% (2007: 30%).

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

	Non-technical account	
	2008	2007
	£000	£000
(Loss)/profit on ordinary activities before tax	**(27,991)**	32,735
Tax on (loss)/profit on ordinary activities at standard rate	**(7,977)**	9,821
Factors affecting charge for the year:		
Depreciation for the period in excess of capital allowances	**(266)**	(366)
Unrealised investment movements and other timing differences	**10,441**	(1,185)
Dividends received	**(1,362)**	(1,041)
Expenses not deductible for tax purposes	**379**	(227)
Tax paid at non-standard rates	**3,640**	(1,062)
Adjustments to tax charge in respect of prior years	**(290)**	95
Total actual amount of current tax	**4,565**	6,035

12 Charitable distributions

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

	Company		Group	
	Distributions	**Donations**	**Distributions**	**Donations**
	£000	**No.**	**£000**	**No.**
Dioceses	**5,000**	**110**	**5,000**	**111**
Cathedrals	**536**	**106**	**536**	**106**
Parishes and other charities	**731**	**750**	**933**	**924**
Educational charities	**-**	**1**	**540**	**73**
	6,267	**967**	**7,009**	**1,214**

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 parishes 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 £65.7 million (2007: £62.0 million) has been provided by group companies for church and charitable purposes.

13 Acquisition of subsidiary

On 1 April 2008, the group acquired 100% of the issued ordinary share capital of South Essex Insurance Holdings Limited, holding company of South Essex Insurance Brokers Limited, an insurance brokerage business. The group has used acquisition accounting to account for the purchase. Details of the acquisition are as follows:

Purchase consideration	£000
- cash paid	21,695
- directly attributable costs	1,156
- deferred consideration	2,200
Total purchase consideration	**25,051**
Fair value of net assets acquired	**(8,166)**
Goodwill	**16,885**

The deferred consideration payment is a minimum of £2,200,000, but may rise contingent on the future average earnings of South Essex Insurance Brokers Limited over the 3 year period to December 2010.

The assets and liabilities arising from the acquisition are as follows:	Fair value	Acquiree's carrying amount
	£000	£000
Intangible assets	3,826	-
Tangible assets	316	316
Financial investments	4	4
Cash at bank and in hand	2,070	2,070
Other assets	5,744	5,744
Other liabilities	(3,794)	(3,794)
Net assets acquired	**8,166**	**4,340**

The fair value of identifiable intangible assets acquired, consisting of customer and distribution relationships, was determined by a professional valuation.

Purchase consideration settled in cash	22,851
Cash at bank and in hand in subsidiary acquired	(2,070)
Cash outflow on acquisition	**20,781**

South Essex Insurance Brokers Limited contributed £913,000 profit to the group operating loss for the period. Of this, £918,000 profit is included within other operations in the non technical account, and £5,000 of expense within charitable grants.

Prior to a reorganisation that took place immediately before the acquisition, the profit on ordinary activities after taxation of the acquired brokerage business for the period from 1 January 2008 to 31 March 2008 was £360,000. The profit on ordinary activities after taxation for the year ended 31 December 2007 was £1,807,000.

14 Intangible assets

Group	Goodwill £000	Other intangible assets £000	Total £000
Cost:			
At 1 January 2008	**4,178**	**-**	**4,178**
Acquisition during the year	**16,885**	**3,826**	**20,711**
At 31 December 2008	**21,063**	**3,826**	**24,889**
Amortisation:			
At 1 January 2008	**3,761**	**-**	**3,761**
Provided in the year	**1,684**	**445**	**2,129**
At 31 December 2008	**5,445**	**445**	**5,890**
Net book value:			
At 31 December	**15,618**	**3,381**	**18,999**
At 1 January	417	-	417

Goodwill arose on the acquisition of subsidiary undertakings.

Other intangible assets consist of acquired customer and distribution relationships, which have an overall remaining useful life of 6 years on a weighted average basis.

None of the intangible assets noted above relate to the parent company, or to the group's long term business.

15 Investments

Group	2008 General business £000	2008 Long term business £000	2008 Total £000	2007 General business £000	2007 Long term business £000	2007 Total £000
Freehold land and buildings						
- occupied by the group	**3,982**	**350**	**4,332**	3,881	475	4,356
- other	**19,890**	**4,671**	**24,561**	27,017	6,541	33,558
	23,872	**5,021**	**28,893**	30,898	7,016	37,914

Other financial investments

Financial investments summarised by measurement category are as follows:

	2008 General business £000	2008 Long term business £000	2008 Total £000	2007 General business £000	2007 Long term business £000	2007 Total £000
Financial investments at fair value through profit and loss						
Equity securities:						
- listed	**166,313**	**107,697**	**274,010**	208,034	163,351	371,385
- unlisted	**22,511**	**300**	**22,811**	22,337	300	22,637
Debt securities:						
- government bonds	**340,843**	**101,134**	**441,977**	253,529	73,223	326,752
- listed	**118,806**	**57,447**	**176,253**	110,937	68,197	179,134
- unlisted	**283**	**283**	**566**	302	302	604
	648,756	**266,861**	**915,617**	595,139	305,373	900,512
Loans and receivables						
Loans secured by mortgages	**15,338**	**13,603**	**28,941**	18,751	16,204	34,955
Other loans	**3,689**	**77**	**3,766**	11,465	91	11,556
	19,027	**13,680**	**32,707**	30,216	16,295	46,511
Total other financial investments	**667,783**	**280,541**	**948,324**	625,355	321,668	947,023

15 Investments (continued)

Certain properties held by subsidiaries but occupied by the group, were revalued at 31 December 2008. All other owner occupied properties were revalued at 31 December 2006. Other properties were revalued at 31 December 2008. Valuations were carried out by Cluttons, an external firm of Chartered Surveyors, and were made on the basis of open market value.

Included in equity securities of the group's long term business are options with a fair value of £4,081,000 (2007: £1,685,000), that are classified as held for trading. With the exception of these and general business other loans, all other financial investments are non-current. Equity and debt securities, excluding options, 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. An analysis of other financial investments by FRS 26 measurement category is given in note 2.

Parent

	Unrestricted funds	
Shares in subsidiary undertakings	**2008**	2007
	£000	£000
Cost:		
At 1 January and 31 December	**50**	50
Revaluation:		
At 1 January	**300,892**	282,279
Revaluation of group undertakings	**(19,821)**	18,613
At 31 December	**281,071**	300,892
Net book value:		
At 31 December	**281,121**	300,942
At 1 January	**300,942**	282,329

The above investments are unlisted, and include £35,323,000 (2007: £27,810,000) relating to subsidiary undertakings outside the UK.

	Endowment funds	
Other financial investments	**2008**	2007
	£000	£000
Cost:		
At 1 January	**1,093**	-
Additions	**9,993**	1,093
Disposals	**(1,784)**	-
At 31 December	**9,302**	1,093
Revaluation:		
At 1 January	**(46)**	-
Unrealised losses	**(657)**	(46)
At 31 December	**(703)**	(46)
Net book value:		
At 31 December	**8,599**	1,047
At 1 January	**1,047**	-

Other financial investments are non-current, and consist of listed equity and debt securities, including £1,013,000 (2007: £173,000) relating to investments outside the UK.

16 Group derivative financial instruments

The group utilises non-hedge derivatives to mitigate equity price risk arising from investments held at fair value.

Equity/Index contracts	2008			2007		
	Contract/ notional amount £000	**Fair value asset £000**	**Fair value liability £000**	Contract/ notional amount £000	Fair value asset £000	Fair value liability £000
General business						
Futures	**43,218**	**-**	**(682)**	-	-	-
Long term business						
Futures	**19,438**	**-**	**(317)**	-	-	-
Options	**26,000**	**4,081**	**-**	26,000	1,685	-
Totals at 31 December	**88,656**	**4,081**	**(999)**	26,000	1,685	-

The notional amounts above reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of the derivative transaction. They do not reflect current market values of the open positions.

Derivative fair value assets are recognised within other financial investments (note 15) and derivative fair value liabilities are recognised as creditors (note 27).

The contractual undiscounted cash flows in relation to non-hedge derivative liabilities all mature within one year.

Included within group cash at bank and in hand are cash deposits of £9,475,000 (2007: £nil) pledged as collateral by way of cash margins on open derivative contracts and cash to cover derivative liabilities. On closure of these contracts any derivative liability position is settled, and collateral pledged on the margin ceases.

17 Group debtors arising out of insurance operations

(a) Group debtors arising out of direct insurance operations

	2008			2007		
	General business £000	**Long term business £000**	**Total £000**	General business £000	Long term business £000	Total £000
Policyholders	**22,359**	**922**	**23,281**	18,904	982	19,886
Intermediaries	**48,696**	**-**	**48,696**	49,047	-	49,047
	71,055	**922**	**71,977**	67,951	982	68,933

(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.

17 Group debtors arising out of insurance operations (continued)
(c) Impairment of group debtors arising out of insurance operations
The group has recognised a charge of £705,000 (2007: £399,000) in administrative expenses in the profit and loss account for the impairment of its insurance debtors during the year.

There has been no significant change in the credit quality of the group's debtors, for which no collateral is held. The directors consider that the amounts are recoverable at their carrying values, which are stated net of an allowance for doubtful debts, based on historic experience of credit losses.

Movement in the group allowance for doubtful debts

	2008	2007
	£000	£000
Balance at beginning of year	3,325	2,949
Movement in the year	576	376
Balance at end of year	3,901	3,325

The group allowance for doubtful debts includes a provision of £206,000 (2007: £440,000) in respect of debtors that are individually determined to be impaired based on an assessment of their ageing profile and credit rating at the reporting date.

Included within insurance debtors of the group is £4,342,000 (2007: £4,731,000) overdue but not impaired, of which £3,378,000 (2007: £3,437,000) is not more than three months overdue at the reporting date.

18 Tangible assets *Group*	Computer equipment £000	Motor vehicles £000	Office equipment £000	Total £000
Cost:				
At 1 January 2008	24,305	2,602	5,427	32,334
Additions	3,621	703	809	5,133
Acquisition of subsidiary	196	57	62	315
Exchange movements	336	1	159	496
Disposals	(603)	(638)	(144)	(1,385)
At 31 December 2008	27,855	2,725	6,313	36,893
Depreciation:				
At 1 January 2008	19,272	897	3,288	23,457
Provided in the year	2,308	450	650	3,408
Exchange movements	233	-	72	305
Disposals	(591)	(389)	(115)	(1,095)
At 31 December 2008	21,222	958	3,895	26,075
Net book value at 31 December 2008				
General business	6,535	1,743	2,418	10,696
Long term business	98	24	-	122
	6,633	1,767	2,418	10,818
Net book value at 1 January 2008				
General business	4,857	1,646	2,139	8,642
Long term business	176	59	-	235
	5,033	1,705	2,139	8,877

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

19 Pension asset and retirement benefit obligations

Defined benefit pension plans

The group's main scheme is a non-contributory defined benefit scheme for UK employees. The assets of the scheme are held separately from those of the group by the Trustee of the Ecclesiastical Insurance Office plc Staff Retirement Benefit Fund. An independent qualified actuary appointed by the Trustee is responsible for undertaking triennial valuations which assess the financial position of the scheme. Pension costs for the scheme are determined by the Trustee, having considered the advice of the actuary and having consulted with the Employer. The most recent triennial valuation was at 31 December 2007. Ansvar Insurance Company Limited 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. These schemes are registered with the Pensions Regulator. Pension liabilities for the Republic of Ireland branch are dealt with by payment to an Irish life office. Actuarial valuations have been reviewed and updated by the actuaries at 31 December 2008 for FRS 17 purposes. All schemes are now closed to new entrants.

The group also operates a number of defined contribution pension schemes, for which contributions by the group are disclosed in note 9.

Group	**2008 £000**	2007 £000
The amounts recognised in the balance sheet are determined as follows:		
Present value of funded obligations	**(143,282)**	(164,458)
Fair value of plan assets	**170,374**	189,880
Surplus	**27,092**	25,422
Related deferred tax liability	**(7,674)**	(7,135)
Net asset in the balance sheet	**19,418**	18,287
The amounts recognised in the consolidated profit and loss account are as follows:		
Current service costs	**7,134**	7,364
Gain on settlement	**(825)**	-
Past service costs	**1,339**	40
Total, included in net operating expenses	**7,648**	7,404
Expected return on scheme assets	**12,920**	11,622
Interest cost on scheme liabilities	**(9,402)**	(7,590)
Total, included in other finance income	**3,518**	4,032
The amounts recognised in the consolidated statement of total recognised gains and losses are as follows:		
Total actuarial (losses)/gains	**(1,678)**	1,550

The actual return on pension plan assets was a loss of £22,900,000 (2007: £15,093,000 gain).

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

	2008	2007
Discount rate	**6.50%**	5.80%
Inflation	**3.20%**	3.50%
Expected return on plan assets	**6.79%**	6.73%
Future salary increases	**4.70%**	5.00%
Future pension increases	**3.20%**	3.50%

19 Pension asset and retirement benefit obligations (continued)

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:

	2008	2007
Male	**23.6**	22.7
Female	**26.1**	25.3

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

	2008	2007
Male	**25.7**	25.7
Female	**28.2**	28.2

Plan assets are comprised as follows:	**2008**	2007
	£000	£000
Equities	**65,809**	105,682
Bonds	**66,747**	49,859
Cash	**28,247**	21,893
Other	**9,571**	12,446
	170,374	189,880

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

	2008	2007
	£000	£000
Scheme assets		
As at 1 January	**189,880**	172,365
Pension benefits paid and payable	**(4,766)**	(4,083)
Contributions paid	**7,589**	6,319
Expected return on scheme assets	**12,920**	11,622
Actuarial (losses)/gains	**(35,820)**	3,471
Exchange differences	**571**	186
As at 31 December	**170,374**	189,880
Defined benefit obligation		
As at 1 January	**164,458**	151,433
Current service cost	**7,134**	7,364
Past service cost	**1,339**	40
Gain on settlement	**(825)**	-
Pension benefits paid and payable	**(4,766)**	(4,083)
Interest cost	**9,402**	7,590
Actuarial (gains)/losses	**(34,142)**	1,921
Exchange differences	**682**	193
As at 31 December	**143,282**	164,458

19 Pension asset and retirement benefit obligations (continued)

History of group experience gains and losses	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
Present value of defined benefit obligations	(143,282)	(164,458)	(151,433)	(146,258)	(111,400)
Fair value of scheme assets	170,374	189,880	172,365	148,166	120,770
Surplus	27,092	25,422	20,932	1,908	9,370
Experience adjustments on scheme liabilities	3,417	7,379	(1,472)	(1,780)	3,415
Experience adjustments on scheme assets	(35,820)	3,471	11,171	14,238	5,495

The cumulative amount of actuarial losses recognised in the consolidated statement of total recognised gains and losses since the 2002 financial year is £10,254,000 (2007: £8,576,000).

The contribution expected to be paid by the group during the year ending 31 December 2009 is £7.0 million.

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:	**2008 £000**	2007 £000
Present value of unfunded obligations	**5,021**	11,452
Related deferred tax asset	**(1,406)**	(3,206)
Net obligations in the balance sheet	**3,615**	8,246

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

Current service cost	**1,373**	993
Gain on settlement	**(4,519)**	-
Total, included in net operating expenses	**(3,146)**	993
Interest cost on scheme liabilities, included in other finance income	**679**	434

The amounts recognised in the consolidated statement of total recognised gains and losses are as follows:

Total actuarial gains/(losses)	**3,874**	(1,647)

The movements in the obligations over the year are as follows:		
At 1 January	**11,452**	8,506
Current service cost	**1,373**	993
Contributions	**(90)**	(128)
Other finance income	**679**	434
Gain on settlement	**(4,519)**	-
Actuarial (gains)/losses	**(3,874)**	1,647
At 31 December	**5,021**	11,452

The main actuarial assumption is a long term increase in medical costs of 8.0% (2007: 8.0%)

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	61	(50)
Effect on the medical benefit obligation	806	(658)

20 Reserves

	Translation reserve £000	Profit and loss account £000	Endowment funds £000	Total £000
Group				
Balance at 1 January	5,430	303,339	11,810	320,579
Currency translation differences	6,149	-	-	6,149
Actuarial losses relating to pension asset	-	(1,678)	-	(1,678)
Movement on deferred tax relating to pension	-	421	-	421
Actuarial gains relating to other retirement benefits	-	3,874	-	3,874
Movement on deferred tax relating to other retirement benefits	-	(1,085)	-	(1,085)
Transfer from profit and loss account	-	(26,426)	(68)	(26,494)
Balance at 31 December	11,579	278,445	11,742	301,766

	Unrestricted funds			
	Income funds £000	Revaluation reserve £000	Endowment funds £000	Total £000
Parent				
Balance at 1 January	7,877	300,892	11,810	320,579
Incoming resources	7,356	-	629	7,985
Outgoing resources	(6,280)	-	-	(6,280)
Revaluation of group undertakings	-	(19,821)	-	(19,821)
Other investment gains/(losses)	-	-	(697)	(697)
Balance at 31 December	8,953	281,071	11,742	301,766

Endowment funds are expendable endowments.

21 Reconciliation of movements in group shareholders' funds

	2008 £000	2007 £000
(Loss)/profit for the financial year	(26,494)	21,660
Other recognised gains and losses relating to the year	7,681	5,916
Net movement in shareholders' funds	(18,813)	27,576
Opening shareholders' funds	320,579	293,003
Closing shareholders' funds	301,766	320,579

22 Minority interests

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

23 Insurance liabilities and reinsurance assets

	2008	2007
Group	**£000**	£000
Gross		
Claims outstanding	**531,931**	489,770
Unearned premiums	**190,570**	179,468
Long term business provision (including technical provision for linked liabilities)	**233,645**	240,231
Equalisation provision	**18,012**	21,285
Total gross insurance liabilities	**974,158**	930,754
Recoverable from reinsurers		
Claims outstanding	**139,482**	134,915
Unearned premiums	**57,209**	52,076
Long term business provision (including technical provision for linked liabilities)	**2,230**	2,268
Total reinsurers' share of insurance liabilities	**198,921**	189,259
Net		
Claims outstanding	**392,449**	354,855
Unearned premiums	**133,361**	127,392
Long term business provision (including technical provision for linked liabilities)	**231,415**	237,963
Equalisation provision	**18,012**	21,285
Total net insurance liabilities	**775,237**	741,495

The equalisation provision, established in accordance with the Prudential sourcebook for Insurers, is required by Schedule 9A to the Companies Act 1985 to be included within technical provisions, notwithstanding that it does not represent a liability at the balance sheet date. It is in addition to the provisions required to meet the anticipated ultimate cost of settling outstanding claims at the balance sheet date. The provision has reduced shareholders' funds by £18,012,000 (2007: £21,285,000) and increased both the balance on the general business technical account and the profit before taxation for the year by £3,273,000 (2007: increase of £1,437,000).

23 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.

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 average cost are used. The Bornhuetter-Ferguson method places more credibility on expected loss ratios for the most recent loss years. 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
There are no significant changes in assumptions.

23 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 pre-tax group loss or profit will be realised:

		2008		2007	
		Gross	**Net**	Gross	Net
		£000	**£000**	£000	£000
Liability	- UK	**17,600**	**15,500**	17,200	14,900
	- Overseas	**7,900**	**6,600**	6,600	5,500
Property	- UK	**7,900**	**4,800**	10,300	6,000
	- Overseas	**11,000**	**5,200**	6,200	2,800
Motor	- UK	**3,400**	**2,400**	3,200	2,300
	- Overseas	**300**	**200**	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**	**2007 £000**	**2008 £000**	**Total £000**
Estimate of ultimate claims:									
At end of year	32,882	34,480	34,483	35,349	39,528	41,007	46,235	51,795	
One year later	32,098	29,269	30,253	34,867	32,780	40,976	43,107		
Two years later	27,680	26,140	29,791	29,447	31,287	35,783			
Three years later	26,476	24,934	28,897	28,486	28,641				
Four years later	24,423	21,787	26,142	27,840					
Five years later	23,011	20,393	25,018						
Six years later	22,562	21,103							
Seven years later	23,405								
Current estimate of ultimate claims	23,405	21,103	25,018	27,840	28,641	35,783	43,107	51,795	256,692
Cumulative payments to date	(19,924)	(16,367)	(17,812)	(15,327)	(10,974)	(7,028)	(3,912)	(852)	(92,196)
Outstanding liability	3,481	4,736	7,206	12,513	17,667	28,755	39,195	50,943	164,496
Liability in respect of earlier years									56,337
Total net liability (for liability classes) included in insurance liabilities in the balance sheet									220,833

23 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:

	2008		2007	
	With-profit	**Non-profit**	With-profit	Non-profit
UK & overseas government bonds: non-linked	**2.11%**	**2.79%**	3.58%	3.62%
UK government: index-linked	**n/a**	**1.29%**	n/a	1.17%
Corporate debt instruments: non-linked	**4.16%**	**4.15%**	4.15%	4.06%
Corporate debt instruments: index linked	**n/a**	**1.36%**	n/a	0.78%
Equities and collective investment vehicles	**5.30%**	**5.04%**	4.83%	1.70%
Loans secured by mortgages	**n/a**	**6.03%**	n/a	6.36%
Cash and deposits	**0.98%**	**1.31%**	2.50%	4.25%
Land & buildings	**4.48%**	**4.48%**	5.11%	5.11%

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
Numbers of policies in force and both projected and actual expenses have been considered when setting the base renewal expense level. The unit renewal expense assumption for Funeral Plan business is £11.00 per annum (2007: £10.50 per annum). The unit renewal expense assumption for third-party administered term assurance business is £11.00 per annum (2007: £10.50 per annum). The base unit renewal expense assumption for other business reduced to £66.00 per annum (2007: £68.00 per annum). The unit renewal expense assumption for overseas term assurance business is €26.67 per annum (2007: n/a). The level of unit renewal expenses charged to the with-profit fund is set. The non-profit fund bears any surplus or deficit.

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 3.6% per annum (2007: 4.5%).

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. As a result liabilities have increased by £3.7 million (2007: £0.3 million increase).

Longevity assumptions are unchanged (2007: changes to assumptions caused a £2.3 million increase in liabilities).

The effect on insurance liabilities of the changes to unit renewal expense assumptions (described in (i) above) for non-profit business, including Funeral Plan business, was a £0.1 million reduction (2007: £0.2 million increase). For with-profit business the effect was a £0.6 million reduction (2007: £3.8 million increase, partially offset by the release of a £2.2 million additional expense reserve).

23 Insurance liabilities and reinsurance assets (continued)

(iii) Sensitivity analysis

The sensitivity of the result before tax to changes in the key assumptions used to calculate non-profit fund insurance liabilities is shown in the following table. No account has been taken of any correlation between the assumptions.

	Change in variable	Potential increase/ (decrease) in profit 2008	2007
Variable		£000	£000
Deterioration in annuitant mortality	-10%	**3,200**	3,000
Improvement in annuitant mortality	+10%	**(3,700)**	(3,600)
Increase in fixed interest/cash yields	+1%pa	**(1,400)**	800
Decrease in fixed interest/cash yields	-1%pa	**700**	(1,100)
Decrease in equity and property values	-5%	**(100)**	(500)
Worsening of base renewal expense level	+10%	**(1,800)**	(5,100)
Improvement in base renewal expense level	-10%	**1,800**	2,100

Changes to with-profit liabilities have no direct effect on total reserves.

(iv) Available capital resources

	With-profit life fund	Non-profit life fund	Share-holders' fund	Total life business	Other activities	Group total
2008	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Total reserves	**-**	**3,578**	**27,442**	**31,020**	**270,746**	**301,766**
Fund for future appropriations	**15,874**	**-**	**-**	**15,874**	**(5,076)**	**10,798**
Adjustments to assets/liabilities	**(1,270)**	**361**	**(840)**	**(1,749)**	**(18,184)**	**(19,933)**
Adjustments to actuarial liabilities	**-**	**(5,575)**	**-**	**(5,575)**	**-**	**(5,575)**
Group contingent loans	**-**	**8,000**	**-**	**8,000**	**(8,000)**	**-**
Total available capital resources	**14,604**	**6,364**	**26,602**	**47,570**	**239,486**	**287,056**
Policyholder liabilities						
- with-profit business	**105,322**	**-**	**-**	**105,322**		
- unit linked business	**-**	**37,542**	**-**	**37,542**		
- other investment business	**-**	**3,401**	**-**	**3,401**		
- other life insurance business	**-**	**126,093**	**-**	**126,093**		
Net actuarial liabilities on balance sheet	**105,322**	**167,036**	**-**	**272,358**		
2007						
Total reserves	-	8,511	31,175	39,686	280,893	320,579
Fund for future appropriations	39,836	-	-	39,836	(26,556)	13,280
Adjustments to assets/liabilities	(1,523)	425	(840)	(1,938)	(17,616)	(19,554)
Adjustments to actuarial liabilities	-	(4,551)	-	(4,551)	-	(4,551)
Total available capital resources	38,313	4,385	30,335	73,033	236,721	309,754
Policyholder liabilities						
- with-profit business	114,755	-	-	114,755		
- unit linked business	-	51,965	-	51,965		
- other investment business	-	2,954	-	2,954		
- other life insurance business	-	123,208	-	123,208		
Net actuarial liabilities on balance sheet	114,755	178,127	-	292,882		

23 Insurance liabilities and reinsurance assets (continued)

Total reserves of the non-profit fund represents the profits generated by this fund not transferred, to date, to the shareholders' fund. The life shareholders' fund is the balance of group reserves 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 the elimination of both deferred acquisition costs and deferred income from investment contracts.

Other activities include the general insurance business of the group, 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 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
2008				
Published capital resources as at 31 December 2007	38,313	4,385	30,335	73,033
Effect of new business	491	(1,877)	-	(1,386)
Variance between actual and expected experience	(20,044)	(757)	-	(20,801)
Effect of changes to valuation interest rates	(2,232)	(5,852)	-	(8,084)
Effect of changes to unit renewal expense assumptions	(11)	816	-	805
Effect of changes to annuitant mortality assumptions	29	-	-	29
Effect of change to inflation assumption	19	1,633	-	1,652
Effect of lapse assumptions	-	(93)	-	(93)
Group contingent loans	-	8,000	-	8,000
Other movements	(1,961)	109	(3,733)	(5,585)
Capital resources as at 31 December 2008	14,604	6,364	26,602	47,570

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.

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

Group	Gross £000	Reinsurance £000	Net £000
Claims outstanding			
At 1 January 2008	**489,770**	**(134,915)**	**354,855**
Cash (paid)/received for claims settled in the year	**(242,452)**	**75,067**	**(167,385)**
Change in liabilities/reinsurance assets:			
- arising from current year claims	**283,409**	**(72,189)**	**211,220**
- arising from prior year claims	**(24,372)**	**543**	**(23,829)**
Exchange differences	**25,576**	**(7,988)**	**17,588**
At 31 December 2008	**531,931**	**(139,482)**	**392,449**
Provision for unearned premiums			
At 1 January 2008	**179,468**	**(52,076)**	**127,392**
Increase in the period	**185,294**	**(55,512)**	**129,782**
Release in the period	**(179,442)**	**51,960**	**(127,482)**
Exchange differences	**5,250**	**(1,581)**	**3,669**
At 31 December 2008	**190,570**	**(57,209)**	**133,361**
Long term business provision (including technical provision for linked liabilities)			
At 1 January 2008	**240,231**	**(2,268)**	**237,963**
Effect of new business during the year	**11,882**	**(1,522)**	**10,360**
Effect of claims during the year	**(29,216)**	**911**	**(28,305)**
Changes in assumptions	**(39)**	**-**	**(39)**
Change in methodology	**(748)**	**-**	**(748)**
Other movements	**11,535**	**649**	**12,184**
At 31 December 2008	**233,645**	**(2,230)**	**231,415**
Claims outstanding			
At 1 January 2007	420,805	(111,781)	309,024
Cash (paid)/received for claims settled in the year	(207,736)	52,276	(155,460)
Change in liabilities/reinsurance assets:			
- arising from current year claims	296,989	(85,295)	211,694
- arising from prior year claims	(30,071)	12,398	(17,673)
Exchange differences	9,783	(2,513)	7,270
At 31 December 2007	489,770	(134,915)	354,855
Provision for unearned premiums			
At 1 January 2007	170,265	(47,184)	123,081
Increase in the period	175,290	(50,614)	124,676
Release in the period	(170,433)	46,940	(123,493)
Exchange differences	4,346	(1,218)	3,128
At 31 December 2007	179,468	(52,076)	127,392
Long term business provision (including technical provision for linked liabilities)			
At 1 January 2007	239,316	(1,808)	237,508
Effect of new business during the year	14,355	(1,619)	12,736
Effect of claims during the year	(30,328)	868	(29,460)
Changes in assumptions	4,537	-	4,537
Change in methodology	907	-	907
Other movements	11,444	291	11,735
At 31 December 2007	240,231	(2,268)	237,963

23 Insurance liabilities and reinsurance assets (continued)

(d) Bonuses

In 2008, profits allocated by the with-profit fund in the form of discretionary benefits amounted to £5,553,000 (2007: £5,321,000). 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%.

24 Investment contract liabilities

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

	2008	2007
	£000	£000
Current	**1,917**	2,210
Non-current	**39,026**	52,709
Total	**40,943**	54,919

Investment contracts consist of unit-linked contracts and temporary annuities. The benefits offered under the unit-linked contracts are based on the return from selected equities and debt securities.

During the year there has been no change in the carrying value of these liabilities resulting from their credit risk (2007: £nil).

The amount of the change in the fair value of these liabilities that is not attributable to the change in the underlying assets is an increase of £483,000 (2007: a reduction of £300,000).

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.

25 Provisions for other risks and charges

Group	**Deferred tax £000**	**Regulatory levies £000**	**Restructuring and other provisions £000**	**Total £000**
At 1 January 2008	39,297	6,593	1,614	47,504
Additional provisions	-	6,465	277	6,742
Used during year	-	(660)	(603)	(1,263)
Exchange differences	-	-	13	13
Other movements	(17,240)	-	(110)	(17,350)
At 31 December 2008	22,057	12,398	1,191	35,646

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. Following changes in the funding arrangements, insurers may now also be required to contribute to levies arising from compensation paid to retail deposit holders. This change plus the impact of the banking crisis in 2008 has led to a change in management's view of the potential levies; this is reflected in the increased provision.

Restructuring and other provisions

The provision for restructuring and other costs relates mainly to onerous lease costs arising from the restructure of the group's UK operations.

26 Deferred tax

	2008	2007
Group	£000	£000
The potential net provision for deferred tax provided in the financial statements is as follows:		
Unrealised investment gains	**25,104**	40,036
Retirement benefit assets	**6,268**	3,929
Depreciation in excess of capital allowances	**(1,166)**	(1,171)
Other timing differences	**(4,470)**	(2,324)
Net provision for deferred tax	**25,736**	40,470
Movements in the net deferred tax provision are analysed as follows:		
At 1 January	**40,470**	42,114
(Credited)/charged to income	**(15,136)**	1,079
Credited to income - resulting from reduction in tax rate	**-**	(2,393)
Charged/(credited) to equity	**664**	(15)
Credited to equity - resulting from reduction in tax rate	**-**	(2)
Exchange differences	**(262)**	(313)
At 31 December	**25,736**	40,470
The net provision for deferred tax is disclosed in the financial statements as follows:		
Amount included in provisions for other risks and charges	**22,057**	39,297
Amount included in other debtors	**(2,589)**	(2,756)
Amount included in net pension assets	**7,674**	7,135
Amount included in retirement benefit obligations	**(1,406)**	(3,206)
	25,736	40,470

The group has unused tax loss relief of £8,019,000 (2007: £7,126,000) arising from pension business and capital transactions. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

27 Other creditors including taxation and social security

	2008	2007
Group	£000	£000
Amounts falling due within one year:		
Derivative liabilities	**999**	-
Other creditors	**11,301**	8,506
Taxation	**2,549**	1,674
	14,849	10,180
Amounts falling due after more than one year:		
Debenture stock	**6,000**	6,000
Other creditors	**976**	948
	6,976	6,948
	21,825	17,128
Included in other creditors are obligations under lease purchase contracts due:		
In 1 year or less	**610**	659
Between 2 and 5 years	**976**	948
	1,586	1,607

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.

28 Notes to the cash flow statement

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

	2008 £000	2007 £000
(Loss)/profit on ordinary activities before tax	(27,991)	32,735
Depreciation charges	3,320	3,061
Amortisation of goodwill	2,129	418
Unrealised losses/(gains) on investments	53,501	(2,742)
Increase in net general insurance technical provisions	27,546	39,192
Loss relating to long term business	4,932	4,797
Loan interest payable	780	917
Other interest payable	222	152
Realised investment loss/(gain)	1,035	(9,165)
Loss/(gain) on sale of tangible fixed assets	31	(9)
Movement in other debtors and creditors	(3,391)	(20,998)
Exchange and other non-cash movements	(7,572)	(734)
Net cash inflow from operating activities	54,542	47,624

(b) Movements in cash, portfolio investments and financing

Group	At 1 January 2008 £000	Cash flow £000	Changes in long term business £000	Exchange and other non-cash movements £000	At 31 December 2008 £000
Cash at bank and in hand	178,190	(51,969)	(2,698)	12,163	135,686
Shares and other variable yield securities	394,022	15,566	(55,654)	(57,113)	296,821
Fixed income securities	553,001	58,157	14,527	25,818	651,503
Land and buildings	37,914	-	(1,996)	(7,025)	28,893
	1,163,127	21,754	(45,821)	(26,157)	1,112,903
Loans due after one year	(6,000)	-	-	-	(6,000)
	1,157,127	21,754	(45,821)	(26,157)	1,106,903

29 Operating leases

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

	2008		2007	
	Premises	Equipment	Premises	Equipment
Commitments	£000	£000	£000	£000
Expiring:				
Within 1 year	68	2	39	149
Between 2 and 5 years	708	35	583	20
Over 5 years	1,420	-	1,505	-
Total	2,196	37	2,127	169
Payments included in operating expenses	2,405	189	2,362	243

30 Capital commitments

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

	2008 £000	2007 £000
Tangible assets	49	353

31 Non-adjusting post balance sheet event

On 31 March 2009, the group acquired 40% of the issued ordinary share capital of Lycetts Holdings Limited, holding company of an insurance brokerage group, for £16.6m.

32 Subsidiary undertakings

Subsidiaries	Share capital	Holding of shares by: Parent	Subsidiary
Incorporated and operating in Great Britain, engaged in investment, insurance and financial services or other insurance related business:			
Ecclesiastical Insurance Group plc	Ordinary shares	100%	-
Ecclesiastical Insurance Office plc	Ordinary shares	-	100%
	8.625% Non-Cumulative Irredeemable Preference Shares	-	9%
Ecclesiastical Underwriting Management Limited	Ordinary shares	-	100%
Allchurches Mortgage Company Limited	Ordinary shares	-	100%
	6% Non-Cumulative Redeemable Preference Shares	-	100%
Ansvar Insurance Company Limited	Ordinary shares	-	100%
Ecclesiastical Financial Advisory Services Limited	Ordinary shares	-	100%
Ecclesiastical Investment Management Limited	Ordinary shares	-	100%
Ecclesiastical Life Limited	Ordinary shares	-	100%
South Essex Insurance Brokers Limited	Ordinary shares	-	100%
Incorporated and operating in Great Britain, engaged in retail of goods and services:			
The Churches Purchasing Scheme Limited	Ordinary shares	-	100%
Ecclesiastical Risk Services Limited	Ordinary shares	-	100%
Incorporated and operating in Australia, engaged in insurance business:			
Ansvar Insurance Limited	Ordinary shares	-	100%
Incorporated and operating in New Zealand, engaged in insurance business:			
Ansvar Insurance Limited	Ordinary shares	-	100%

In addition, at the year end there were seven other wholly owned subsidiary undertakings and a 30% investment in an associated undertaking whose assets and contribution to group income were 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 wholly owned group companies.

During the year related party transactions consisting of £135,000 (2007: £180,000) school fee annuities were paid by the group to Beaufort House Trust Limited, an educational charity under common control and registered at the same address. Of this £9,000 (2007: £47,000) 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 £18,000 (2007: £17,500) net of tax relief.