ALLCHURCHES TRUST LIMITED

REPORT AND ACCOUNTS 31 DECEMBER 2003

Report and Accounts 31 December 2003

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Directors

Directors	M. R. Cornwall-Jones OBE, MA, ACIS *Chairman* The Hon. N. Assheton CVO, MA The Rt. Hon. The Viscount Churchill OBE, MA H. Harris-Hughes CBE, MA, FSI H. F. Hart MA The Rt. Revd. D. G. Snelgrove TD, MA, DD W. H. Yates FRICS
Company Secretary	Mrs R. J. Hall ACIS
Registered and Head Office	Beaufort House, Brunswick Road, Gloucester GL1 1JZ Tel: 01452 528533
Company Registration Number	1043742
Charity Registration Number	263960
Auditors	Deloitte & Touche LLP, London
Bankers	The Royal Bank of Scotland plc, 1 Westgate Street, Gloucester GL1 2TT
Solicitors	Speechly Bircham, 6 St Andrew Street, London EC4A 3LX

Directors' Report

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

Allchurches Trust Limited is a company limited by guarantee not having a share capital and is a registered charity. The main object of the company is to promote the Christian Religion and contribute to the funds of charitable institutions.

Principal activities

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 subsidiary undertakings is given on page 36.

The governing body is the board of directors and the governing documents are the Memorandum and Articles of Association which define the objects of the company and which entitle the board to appoint the directors.

Results and review

The income and charitable distributions of the Trust are shown in its statement of financial activities on page 7. We are pleased to report that the Trust's principal operating subsidiary, Ecclesiastical Insurance Office plc, was able to increase its grant by £250,000 to £4.25 million in the current year. This enabled the Trust to improve its support to the Church and other charitable institutions with distributions increasing to £4.3 million. A copy of the grant making policy is available from the company secretary at the registered office shown on page 2.

The major risks to which the company is exposed have been reviewed by the directors, and systems have been established to mitigate those risks. The directors are responsible for the direction of the company and regularly review the activities of the charity and subsidiary companies and its grant making policies.

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

Results and trading activities within the group

The results and commentary on the trading activities within the group are fully set out in the managing director's review of group operations on pages 5 to 9 of the accounts of the Ecclesiastical Insurance Office plc, a copy of which is sent to each member of Allchurches Trust Limited.

Charitable and political contributions

During the course of the year the company distributed from its resources £4,295,000 *(2002:£4,049,000)* for charitable purposes. A summary of these distributions is set out in note 9 on page 25. Details of individual grants have been submitted to the Charity Commission.

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

Reserving policy

The source of the Trust's income is derived from a cyclical industry. The directors nevertheless 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 approximately equivalent to the amount actually distributed in the previous financial year.

The total amount available for charitable distribution at the end of the year was £5,118,000.

Investment policy

Full details of the company's investments in subsidiary undertakings are disclosed in note 26 on page 36. Other investments of Allchurches Trust Limited comprise cash on deposit.

Directors' Report

Directors

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

Sir Alan McLintock resigned from the board at the conclusion of the annual general meeting on 23 July 2003. Mr M. R. Cornwall-Jones was elected as Chairman on this date. Mrs S. B. S. Homersham resigned from the Board on 31 December 2003. Mr B. V. Day resigned from the Board on 26 January 2004.

Mr M. R. Cornwall-Jones and the Rt. Revd. D. G. Snelgrove retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Mr H. F. Hart was appointed to the Board on 27 April 2004 and Mr H. Harris-Hughes was appointed to the Board on 10 June 2004 and, in accordance with the Articles of Association, they retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Directors' interests

The interests of the directors, all of which are beneficial, in the 2.8% First Cumulative Preference shares of Ecclesiastical Insurance Office plc are as follows:

	Interest at 31.12.2003 No.	*Interest at 1.1.2003 No.*
M. R. Cornwall-Jones	**500**	*500*
The Hon. N. Assheton	-	-
The Rt. Hon. The Viscount Churchill	-	-
H. Harris-Hughes	-	-
H. F. Hart	-	-
The Rt. Revd. D. G. Snelgrove	**700**	*700*
W. H. Yates	**500**	*500*

No director had an interest in any other shares or debentures of the group as at 31 December 2003. There has been no change in these interests since the end of the financial year to the date of this report. No contract of significance subsisted during or at the end of the financial year in which a director was or is materially interested.

Statement of directors' responsibilities

United Kingdom company law requires the directors of a charity (namely the trustees) to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group as at the end of the financial year and of the profit or loss of the group and of the incoming resources and application of resources for that period.

In preparing those financial statements, the directors are required to select suitable accounting policies and apply them consistently, and to make reasonable and prudent judgements and estimates. The directors are also required to state whether applicable United Kingdom accounting standards have been followed and whether the financial statements have been prepared on the going concern basis, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for ensuring that the company keeps proper accounting records which disclose with reasonable accuracy, at all times, the financial position of the company and of the group and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the group's systems of internal controls, for safeguarding the assets of the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Employees

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

Allchurches Trust Limited itself has no direct employees.

Directors' Report

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. Allchurches Trust Limited holds the investments in the group companies, does not trade and does not have suppliers within the meaning of the Companies Act 1985. The number of days' purchases represented by the amounts due to trade creditors of the main operating companies in the United Kingdom at 31 December 2003, calculated in accordance with Schedule 7 of the Companies Act 1985, was 6.2 days *(9.8 days)*.

Related parties

During the year related party transactions consisting of £606,000 (*2002:£670,000*) school fee annuities were accounted for by the group to Beaufort House Trust Limited, a charity under common control and registered at the same address. Of this £145,000 (*2002:£161,000*) was prepaid at the balance sheet date. This has been accounted for in the long term business technical account.

Overseas branches

The group has branches in Canada and the Republic of Ireland.

Going concern

The board has satisfied itself that the group has adequate resources to continue in operation for the foreseeable future. The group accounts have, therefore, been prepared on the going concern basis.

Auditors

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

By order of the board

R. Hall

Mrs R. J. Hall
Secretary

10 June 2004

Independent Auditors' Report

Independent auditors' report to the members of Allchurches Trust Limited

We have audited the financial statements of Allchurches Trust Limited for the year ended 31 December 2003 which comprise the statement of financial activities, the consolidated profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the statement of accounting polices and the related notes 1 to 26. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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

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

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

Basis of audit opinion

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

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

Equalisation reserves

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amounts set aside at 31 December 2003, and the effect of the movement in those reserves during the year on the balance on the general business technical account and loss on ordinary activities before taxation, are disclosed in note 20.

Opinion

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

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London

4/1/ 2004

Statement of Financial Activities

for the year ended 31 December 2003

	Notes	Company		Group	
		2003	*2002*	**2003**	*2002*
		£000	*£000*	**£000**	*£000*
Incoming resources					
Gift aid from subsidiary undertaking		**4,250**	*4,000*	-	-
Deposit interest		**163**	*155*	**163**	*156*
Profit/(loss) from trading subsidiaries		-	-	**29,477**	*(6,235)*
Total incoming/(outgoing) resources		**4,413**	*4,155*	**29,640**	*(6,079)*
Resources expended					
Direct charitable expenditure: charitable grants	9	**4,295**	*4,049*	**4,330**	*4,084*
Net incoming/(outgoing) resources for the year		**118**	*106*	**25,310**	*(10,163)*
Other recognised gains and losses					
Movement in revaluation reserve	15	**27,993**	*(12,406)*	-	-
Currency translation differences		-	-	**2,801**	*(1,137)*
Other movements		-	-	-	*(1,000)*
Net movement in funds		**28,111**	*(12,300)*	**28,111**	*(12,300)*
Total funds brought forward as previously reported		**106,224**	*118,524*	**106,224**	*118,524*
Total funds carried forward		**134,335**	*106,224*	**134,335**	*106,224*

Total incoming resources for the group represent the profit before charitable grants for the financial year presented in the consolidated profit and loss non-technical account.

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

All funds are unrestricted.

Consolidated Profit and Loss Account

for the year ended 31 December 2003

TECHNICAL ACCOUNT - GENERAL BUSINESS		Notes	2003 £000	*2002 £000*
Gross premiums written		2(a)	353,657	*313,685*
Outward reinsurance premiums			(132,731)	*(109,463)*
Net premiums written		2(a)	220,926	*204,222*
Change in the gross provision for unearned premiums			17,061	*11,039*
Change in the provision for unearned premiums, reinsurers' share			(8,388)	*(2,566)*
Change in the net provision for unearned premiums			8,673	*8,473*
Earned premiums, net of reinsurance			212,253	*195,749*
Claims paid	- gross amount		155,234	*167,947*
	- reinsurers' share		(43,209)	*(55,067)*
			112,025	*112,880*
Change in the provision for claims	- gross amount		22,319	*15,265*
	- reinsurers' share		(5,842)	*(1,491)*
			16,477	*13,774*
Claims incurred, net of reinsurance			128,502	*126,654*
Net operating expenses		4(a)	66,664	*63,456*
Total technical charges			195,166	*190,110*
Balance on the technical account before equalisation provision			17,087	*5,639*
Change in the equalisation provision		20	(4,770)	*(3,782)*
Balance on the technical account for general business			12,317	*1,857*

All of the amounts above are in respect of continuing operations.

Consolidated Profit and Loss Account

for the year ended 31 December 2003

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

All the amounts above are in respect of continuing operations.

Consolidated Profit and Loss Account

for the year ended 31 December 2003

NON-TECHNICAL ACCOUNT	Notes	2003 £000	*2002* *£000*
Balance on the general business technical account		**12,317**	*1,857*
Balance on the long term business technical account		**(3,851)**	*1,207*
Tax attributable to the shareholders' long term business profits	8	**-**	*517*
		8,466	*3,581*
Investment income	3	**19,313**	*22,516*
Unrealised gains/(losses) on investments		**19,580**	*(29,172)*
Allocated investment return transferred from the long term business technical account		**2,512**	*(1,231)*
Investment expenses and charges	3	**(1,453)**	*(1,056)*
Other operations		**90**	*307*
Other charges - recurring	4(b)	**(1,428)**	*(1,530)*
- exceptional	4(c)	**(4,155)**	*-*
		34,459	*(10,166)*
Operating profit/(loss)		**47,695**	*(2,803)*
Change in equalisation provision	20	**(4,770)**	*(3,782)*
Profit/(loss) on ordinary activities before tax	2(c)	**42,925**	*(6,585)*
Tax charge/(credit) on profit/(loss) on ordinary activities	8	**10,827**	*(2,964)*
Profit/(loss) on ordinary activities after tax		**32,098**	*(3,621)*
Minority interests	17	**2,458**	*2,458*
Profit/(loss) for the financial year		**29,640**	*(6,079)*
Charitable grants	9	**4,330**	*4,084*
Retained profit/(loss) for the financial year	15	**25,310**	*(10,163)*

Non-equity interests included in minority interests are disclosed in note 17 to the accounts.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2003

Retained profit/(loss) for the financial year		**25,310**	*(10,163)*
Revaluation of long term business		**-**	*(1,000)*
Currency translation differences		**2,801**	*(1,137)*
Total recognised gains and losses for the financial year	16	**28,111**	*(12,300)*

Parent Company Balance Sheet

at 31 December 2003

	Notes	2003 £000	*2002 £000*
Fixed assets: investments			
Shares in group undertakings	11	**129,252**	*101,259*
Current assets			
Prepayments and accrued income		**2,264**	*4,012*
Cash at bank and in hand		**2,853**	*2,807*
		5,117	*6,819*
Creditors			
Amounts falling due within one year:			
Creditors		**34**	*1,854*
Net current assets		**5,083**	*4,965*
Net assets		**134,335**	*106,224*
Unrestricted reserves	15		
Revaluation and other reserves		**129,202**	*101,209*
Retained profits		**5,133**	*5,015*
		134,335	*106,224*

The financial statements on pages 7 to 36 were approved by the board of directors on 10 June 2004 and signed on their behalf by

M. R. CORNWALL-JONES *Chairman*

W. H. YATES *Director*

Consolidated Balance Sheet

at 31 December 2003

	Notes	2003 £000	*2002 £000*
ASSETS			
Goodwill	10	**2,089**	*2,519*
Investments			
Land and buildings	11	**19,271**	*19,021*
Investments in participating interests	11	**45**	*41*
Other financial investments	11	**616,033**	*501,538*
Value of long term insurance business		**4,000**	*4,000*
		639,349	*524,600*
Assets held to cover linked liabilities	12	**40,903**	*30,959*
Reinsurers' share of technical provisions			
Provision for unearned premiums		**39,684**	*29,614*
Long term business provision	18	**609**	*1,242*
Claims outstanding	19	**103,019**	*95,855*
		143,312	*126,711*
Debtors			
Debtors arising out of direct insurance operations	13(a)	**63,326**	*51,793*
Debtors arising out of reinsurance operations	13(b)	**13,415**	*15,625*
Other debtors		**1,936**	*1,724*
		78,677	*69,142*
Other assets			
Tangible assets	14	**9,424**	*11,358*
Cash at bank and in hand		**99,332**	*135,662*
		108,756	*147,020*
Prepayments and accrued income			
Accrued interest and rent		**7,198**	*4,922*
Deferred acquisition costs		**24,863**	*17,247*
Other prepayments and accrued income		**3,713**	*2,525*
		35,774	*24,694*
Total assets		**1,048,860**	*925,645*

Consolidated Balance Sheet

at 31 December 2003

	Notes	2003	*2002*
LIABILITIES		**£000**	*£000*
Reserves	15		
Long term business reserve		**4,000**	*4,000*
General reserve		**10,000**	*10,000*
Profit and loss account		**120,335**	*92,224*
		134,335	*106,224*
Minority interests	17	**28,077**	*28,077*
Fund for future appropriations		**10,238**	*11,600*
Technical provisions			
Provision for unearned premiums		**139,089**	*117,240*
Long term business provision	18	**215,482**	*214,655*
Claims outstanding	19	**361,742**	*334,059*
Equalisation provision	20	**14,708**	*9,938*
		731,021	*675,892*
Technical provision for linked liabilities		**40,903**	*30,959*
Provisions for other risks and charges	21	**19,708**	*10,004*
Deposits received from reinsurers		**26**	*24*
Creditors			
Creditors arising out of direct insurance operations		**5,086**	*2,034*
Creditors arising out of reinsurance operations		**19,239**	*16,931*
Other creditors including taxation and social security	22	**42,125**	*38,211*
		66,450	*57,176*
Accruals and deferred income		**18,102**	*5,689*
Total liabilities		**1,048,860**	*925,645*

Consolidated Cash Flow Statement

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

	Notes	2003 £000	*2002 £000*
Net cash inflow from operating activities	23(a)	**69,370**	*52,776*
Servicing of finance			
Loan interest paid		**(1,629)**	*(2,028)*
Preference dividends paid		**(2,458)**	*(2,458)*
Other interest paid		**(103)**	*(111)*
Taxation paid		**(4,923)**	*(1,230)*
Capital expenditure			
Purchase of tangible fixed assets		**(2,022)**	*(1,594)*
Proceeds from the disposal of fixed assets		**317**	*679*
Acquisitions and disposals		**-**	*1*
Charitable grants paid		**(4,345)**	*(4,084)*
Financing			
Capital element of lease purchase rental payments		**(426)**	*(425)*
Reduction in corporate business loans		**-**	*(3,000)*
	23(b)	**53,781**	*38,526*
Cash flows were invested as follows:			
(Decrease)/increase in cash holdings		**(10,866)**	*20,333*
Portfolio investment			
Purchases of shares and other variable yield securities		**31,597**	*5,471*
Purchases of fixed income securities		**286,166**	*116,818*
Purchases of properties		**18**	*11,990*
Sales of shares and other variable yield securities		**(24,416)**	*(34,599)*
Sales of fixed income securities		**(227,536)**	*(77,514)*
Sales of properties		**(1,182)**	*(3,973)*
Net investment of cash flows		**53,781**	*38,526*
Movement arising from cash flows		**53,781**	*38,526*
Reduction in corporate business loans		**-**	*3,000*
Movement in long term business		**7,460**	*(39,780)*
Changes in market values and exchange rate effects		**27,122**	*(30,181)*
Total movement in portfolio investments net of financing		**88,363**	*(28,435)*
Portfolio investments net of financing 1 January		**661,221**	*689,656*
***Portfolio investments net of financing* 31 December**	23(b)	**749,584**	*661,221*

Accounting Policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with Section 255A of, and Schedule 9A to, the Companies Act 1985. The financial statements of the parent company have been prepared in accordance with Section 226 and Schedule 4 of 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 1998 Statement of Recommended Practice issued by the Association of British Insurers (ABI SORP) and the Statement of Recommended Practice (SORP 2000) "Accounting and Reporting by Charities". Where it provides a more appropriate presentation of financial statements, the ABI SORP has been adopted.

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.

Incoming resources

In the parent company, gift aid is recognised on an accruals basis.

Funds structure

There is no separate designation of funds.

Resources expended

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

Foreign exchange

Foreign currency revenue transactions and assets, liabilities and reserves are translated at rates of exchange ruling at the balance sheet date except for certain revenue transactions which are translated at the actual rate obtained on exchanging each currency for sterling. Surpluses and deficits arising from the translation at those rates of exchange of the branch current accounts are taken directly to reserves as being outside the company's normal trading activities. Exchange profits and losses which arise from normal trading activities are taken to the non-technical account.

Premium levies

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

General business technical account

Premiums

The annual basis of accounting has been adopted except for London market and certain inwards reinsurance business. Under the annual basis of accounting, written premiums, gross of commission payable to intermediaries, comprise the premiums on contracts entered into during a financial year, regardless of whether such amounts may relate in whole or in part to a later financial year.

Accounting Policies

General business technical account (continued)

Premiums (continued)

The fund basis of accounting has been applied to London market and certain inwards reinsurance business because the nature of the business is such that an underwriting result cannot be established with sufficient accuracy using the annual basis. Under the fund basis of accounting, written premiums, gross of commission payable to intermediaries, comprise premiums receivable in respect of contracts commencing in the financial year. The excess of premiums written over claims and expenses paid in respect of business commencing in an underwriting year is carried forward as a technical provision as part of outstanding claims. A profit is not recognised until the end of the second year following the underwriting year of account to which that business relates. Any anticipated underwriting losses are recognised as soon as they are foreseen.

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

Unearned premiums

For business accounted for on the annual basis, the provision for unearned premiums comprises the amount representing that part of gross premiums written which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro rata method and taking into account the risk profile of the contracts.

Unexpired risks

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

Claims incurred

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

Claims outstanding

Outstanding claims provisions are based on the estimated ultimate cost of claims incurred but not settled by the balance sheet date, whether reported or not, including related settlement costs. The ultimate cost of claims cannot be known with certainty at the balance sheet date. Estimates are selected which are deemed to be prudent within the range of possible outcomes. Further details of estimation techniques are included in note 19. Any differences between provisions and subsequent settlements are dealt with in the technical accounts of later years.

Deferred acquisition costs

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

Equalisation provision

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

Long term business technical account

Premiums

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

Long term business technical account (continued)

Claims

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

Deferred acquisition costs

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

Bonuses

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

Long term business provision

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

Allocation of surpluses and fund for future appropriations

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

Investments

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

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

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

In the parent company balance sheet investments in subsidiary undertakings are stated at the lower of net asset value or directors' valuation. The surplus or deficit over cost arising from that valuation is taken to revaluation reserve.

Accounting Policies

Investment income and expenses

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

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

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

Deferred taxation

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

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

Tangible assets

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

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

Value of long term insurance business

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

Pensions

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

Leasing commitments

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

Goodwill

Goodwill arising on an acquisition, being the difference between the cost and the fair value of assets and liabilities acquired, is capitalised in the balance sheet and amortised through the profit and loss account over its estimated useful economic life of between 2 and 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.

Notes to the Accounts

1 Exchange rates

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

2 Segmental analysis

(a) General business premiums

	2003		*2002*	
	Gross	Net	*Gross*	*Net*
	£000	£000	*£000*	*£000*
Direct:				
Accident	7,635	7,271	*6,925*	*6,640*
Motor	30,164	27,324	*35,862*	*31,244*
Property	196,007	90,532	*164,047*	*84,645*
Liability	69,424	60,501	*48,403*	*41,131*
	303,230	185,628	*255,237*	*163,660*
Reinsurance accepted and London market	50,427	35,298	*58,448*	*40,562*
Total	353,657	220,926	*313,685*	*204,222*
Geographical analysis - on the basis of location of office				
United Kingdom	269,326	169,988	*249,933*	*166,004*
Australia and New Zealand	47,324	27,708	*32,292*	*20,137*
Canada	25,990	16,205	*20,767*	*10,805*
Other overseas	11,017	7,025	*10,693*	*7,276*
Total	353,657	220,926	*313,685*	*204,222*

(b) Long term business premiums

Geographical analysis - on the basis of location of office				
United Kingdom	19,463	19,012	*19,815*	*19,339*
New Zealand	-	-	*110*	*64*
Total	19,463	19,012	*19,925*	*19,403*

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

Notes to the Accounts

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

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

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

		2003	*2002*
(c)	**Profit/(loss) before taxation**		
	United Kingdom	**38,384**	*(15,788)*
	Australia and New Zealand	**3,829**	*943*
	Canada	**3,222**	*1,181*
	Other overseas	**1,341**	*355*
	Long term business	**(3,851)**	*6,724*
	Total	**42,925**	*(6,585)*
(d)	**Net assets**		
	United Kingdom	**93,141**	*70,038*
	Australia and New Zealand	**9,947**	*5,998*
	Canada	**18,356**	*14,493*
	Other overseas	**(526)**	*(1,573)*
	Long term business	**13,417**	*17,268*
	Total	**134,335**	*106,224*

(e) Total assets

Of the total assets shown on page 12, £285,954,000 (*2002:£279,266,000*) are attributable to the long term business fund.

Notes to the Accounts

3 Investment income

	2003 General business £000	2003 Long term business £000	*2002 General business £000*	*2002 Long term business £000*
Land and buildings	1,453	19	*1,544*	*745*
Other investments	17,860	14,637	*16,268*	*14,359*
Realised investment gains	-	-	*4,704*	*17,795*
Investment income	19,313	14,656	*22,516*	*32,899*
Investment expenses and charges:				
Investment management expenses, including interest	1,069	685	*1,056*	*610*
Realised investment losses	384	2,515	*-*	*-*
Investment expenses and charges	1,453	3,200	*1,056*	*610*
Net investment return	17,860	11,456	*21,460*	*32,289*

4 Expenses

	2003 General business £000	2003 Long term business £000	*2002 General business £000*	*2002 Long term business £000*
(a) Net operating expenses				
Commission paid on direct business	51,458	(35)	*48,734*	*60*
Other acquisition costs	13,870	-	*19,823*	*1,735*
Change in deferred acquisition costs	1,244	44	*(767)*	*218*
Administrative expenses	37,809	5,660	*24,986*	*3,736*
Reinsurance commissions and profit participation	(37,717)	(167)	*(29,320)*	*(180)*
	66,664	5,502	*63,456*	*5,569*
Group administrative expenses include:				
Depreciation - owned assets	3,656	427	*3,113*	*98*
- leased assets	95	(52)	*(76)*	*62*
Auditors' remuneration - parent	2	-	*2*	*-*
- group UK	307	38	*222*	*41*
- group overseas	101	-	*72*	*-*
- group fees for non-audit services	128	39	*121*	*21*
Interest payments under lease purchase contracts	103	27	*111*	*32*

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

	2003 General business £000	2003 Long term business £000	*2002 General business £000*	*2002 Long term business £000*
(b) Other charges				
Debenture interest	780	-	*780*	*-*
Corporate business loan interest	218	-	*269*	*-*
Amortisation of goodwill	430	-	*481*	*-*
	1,428	-	*1,530*	*-*

Notes to the Accounts

4 Expenses (continued)

(c) Exceptional items

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

5 Employee information

The company has no employees *(2002:nil)*. The average monthly number of employees, including executive directors, *during the year by geographical location employed by group companies* was as follows:

	2003		*2002*	
	General business No.	**Long term business No.**	*General business No.*	*Long term business No.*
United Kingdom	**849**	**85**	*847*	*89*
Australia and New Zealand	**99**	**-**	*98*	*-*
Canada	**58**	**-**	*66*	*-*
Republic of Ireland	**16**	**-**	*16*	*-*
	1,022	**85**	*1,027*	*89*
	£000	**£000**	*£000*	*£000*
Wages and salaries	**24,285**	**2,167**	*23,619*	*1,989*
Social security costs	**1,834**	**201**	*1,836*	*162*
Other pension costs	**5,157**	**270**	*3,337*	*265*
	31,276	**2,638**	*28,792*	*2,416*

6 Directors' emoluments

No director received emoluments from Allchurches Trust Limited during the year *(2002:£nil)*.

	2003	*2002*
	£	*£*
The aggregate emoluments of the directors in respect of services as non-executive directors of subsidiary undertakings	**72,625**	*79,875*
Highest paid director's fees	**38,500**	*40,000*

No director was a member of the group's defined benefit pension scheme during the year *(2002:nil)*.

Notes to the Accounts

7 Pensions

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

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

The most recent actuarial valuation showed that the market value of the scheme's assets was £86,187,000 and that the actuarial value of the assets was in excess of 120% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The contribution of the group to the fund is and will remain at 16% of pensionable salary, plus additional amounts in accordance with recommendations by the Scheme Actuary. The scheme is registered with the Registrar of Pension Schemes. Pension liabilities of the Canadian branch are dealt with by payment to a Canadian Trust Fund, and pension liabilities for the Republic of Ireland branch are dealt with by payment to an Irish life office. The total funding cost for the year was £4,400,000 *(2002:£2,990,000)*. Of this £4,180,000 *(2002:£2,901,000)* related to the UK scheme.

The Ansvar subsidiaries operate separate schemes to the main group scheme. In the Republic of Ireland the non-contributory defined contribution scheme is now paid up. In the UK the company operates a non-contributory defined benefit scheme, the contributions to which are determined with the advice of independent qualified actuaries on the basis of triennial valuations using the attained age method. Contributions have increased to 21.6% of pensionable salary together with an annual contribution of £127,000 and a special contribution of £200,000 as recommended by the scheme actuary. It is assumed that there will be a 1% margin between investment return and salary growth. The latest SSAP 24 valuation of the scheme was at 31 December 2002, when the market value of the assets, at £2,711,000, represented 81% of the benefits that had accrued to members. In Australia, EIG-Ansvar operates, through an AMP Masterplan, a defined contribution plan that complies with the Superannuation Industry (Supervision) Act, 1993. Employees contribute at a rate of 5% of basic salary, and the company at a rate of 9%.

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

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

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

On full compliance with FRS 17, on the basis of the above assumptions, the amounts that would have been charged to the consolidated profit and loss account and consolidated statement of total recognised gains and losses for the year ended 31 December 2003 are shown on page 24.

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

Notes to the Accounts

7 Pensions (continued)

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

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

	Value at 2003 £000	Expected rate of return	*Value at 2002 £000*	*Expected rate of return*	*Value at 2001 £000*	*Expected rate of return*
Equities	**57,596**	**8.00%**	*45,110*	*8.00%*	*59,364*	*8.00%*
Bonds	**28,274**	**5.50%**	*23,235*	*5.50%*	*18,898*	*5.50%*
Other	**15,575**	**4.00%**	*15,780*	*4.00%*	*12,082*	*4.50%*
Total market value of assets	**101,445**		*84,125*		*90,344*	
Present value of scheme liabilities	**94,676**		*80,362*		*71,802*	
Net surplus in the schemes	**6,769**		*3,763*		*18,542*	
Deferred tax liability	**2,031**		*1,129*		*5,563*	
Net pension asset	**4,738**		*2,634*		*12,979*	
Group net assets excluding net pension asset	**134,335**		*106,224*		*118,524*	
Group net assets including net pension asset	**139,073**		*108,858*		*131,503*	
Profit and loss account excluding net pension asset	**120,335**		*92,224*		*103,524*	
Net pension asset	**4,738**		*2,634*		*12,979*	
Profit and loss account including net pension asset	**125,073**		*94,858*		*116,503*	

Notes to the Accounts

8 Taxation

	Long term business technical account		Non-technical account	
	2003	*2002*	2003	*2002*
	£000	*£000*	£000	*£000*
UK corporation tax for the current financial year	-	*2,041*	2,863	*217*
Overseas tax	-	*52*	2,403	*690*
Tax attributable to shareholders' long term business profits	-	-	-	*517*
	-	*2,093*	5,266	*1,424*
Deferred tax	1,943	*(4,577)*	5,561	*(4,388)*
	1,943	*(2,484)*	10,827	*(2,964)*

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

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

	Non-technical account	
	2003	*2002*
	£000	*£000*
Profit/(loss) on ordinary activities before tax	42,925	*(6,585)*
Tax on profit/(loss) on ordinary activities at standard rate	12,878	*(1,976)*
Factors affecting charge for the period:		
Capital allowances for the period in excess of depreciation	(225)	*(576)*
Dividends received	(907)	*(1,237)*
Expenses not deductible for tax purposes	435	*755*
Tax paid at non-standard rates	(205)	*383*
Unrealised investment movements and other timing differences	(6,554)	*4,075*
Adjustments to tax charge in respect of prior periods	(156)	-
Total actual amount of current tax	5,266	*1,424*

9 Charitable distributions

During the course of the year distributions amounting to £4,295,000 *(2002:£4,049,000)* were paid by the company as follows:

	Distributions	Donations
	£000	No.
Dioceses	3,754	55
Cathedrals	234	46
Parishes and other charities	307	742
	4,295	843

9 Charitable distributions (continued)

Due to their extensive nature, further analyses of these 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. In addition to the above the group made one donation of £35,000 *(2002:£35,000)* to Beaufort House Trust Limited, an educational charity. During the last five years a total of £21.7 million has been provided by group companies for church and charitable purposes.

10 Goodwill

	2003	2002
	£000	*£000*
Carrying value 1 January	**2,519**	*2,994*
Additions	**-**	*6*
Amortisation	**(430)**	*(481)*
Carrying value 31 December	**2,089**	*2,519*

Goodwill arose on the acqusition of a subsidiary undertaking.

Notes to the Accounts

11 **Group Investments**	2003			2002		
	General business	**Long term business**	**Total**	*General business*	*Long term business*	*Total*
	£000	**£000**	**£000**	*£000*	*£000*	*£000*
Current value						
Freehold land and buildings						
- occupied by the group	**2,468**	**392**	**2,860**	*2,122*	*392*	*2,514*
- other	**16,411**	**-**	**16,411**	*16,507*	*-*	*16,507*
	18,879	**392**	**19,271**	*18,629*	*392*	*19,021*
Investment in participating interest						
- ordinary shares	**45**	**-**	**45**	*41*	*-*	*41*
Other financial investments						
Shares and other variable yield securities and units in unit trusts:						
- listed	**117,810**	**100,711**	**218,521**	*96,723*	*89,206*	*185,929*
- unlisted	**16,758**	**297**	**17,055**	*15,568*	*178*	*15,746*
	134,568	**101,008**	**235,576**	*112,291*	*89,384*	*201,675*
Debt and other fixed income securities:						
- listed	**229,387**	**87,437**	**316,824**	*163,160*	*71,705*	*234,865*
- unlisted	**1,343**	**3,262**	**4,605**	*216*	*81*	*297*
Loans secured by mortgages	**16,422**	**35,517**	**51,939**	*16,328*	*42,189*	*58,517*
Other loans	**6,671**	**418**	**7,089**	*5,872*	*312*	*6,184*
	253,823	**126,634**	**380,457**	*185,576*	*114,287*	*299,863*
Total	**388,391**	**227,642**	**616,033**	*297,867*	*203,671*	*501,538*
Cost						
Freehold land and buildings	**17,623**	**400**	**18,023**	*18,927*	*400*	*19,327*
Investment in participating interest	**30**	**-**	**30**	*30*	*-*	*30*
Other financial investments	**335,865**	**159,887**	**495,752**	*263,134*	*149,801*	*412,935*
	353,518	**160,287**	**513,805**	*282,091*	*150,201*	*432,292*
Debt and other fixed income securities valued at amortised cost						
Cost	**221,623**	**44,886**	**266,509**	*153,097*	*63,139*	*216,236*
Cumulative amortisation	**(2,034)**	**(879)**	**(2,913)**	*(315)*	*(1,392)*	*(1,707)*
Current value	**219,589**	**44,007**	**263,596**	*152,782*	*61,747*	*214,529*
Unamortised maturity value	**17,043**	**(1,156)**	**15,887**	*(4,631)*	*(3,521)*	*(8,152)*
Maturity value	**236,632**	**42,851**	**279,483**	*148,151*	*58,226*	*206,377*
Market value	**216,316**	**47,458**	**263,774**	*159,447*	*67,266*	*226,713*

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

11 Group investments (continued)

	Shares in subsidiary undertakings	
	2003	*2002*
	£000	*£000*
Cost		
At 1 January and 31 December	**50**	*50*
Revaluation		
At 1 January	**101,209**	*113,615*
Revaluation of group undertakings	**27,993**	*(12,406)*
At 31 December	**129,202**	*101,209*
Net book value		
At 31 December	**129,252**	*101,259*
At 1 January	**101,259**	*113,665*

All of the above investments are unlisted.

12 Assets held to cover linked liabilities

	2003		*2002*	
	Current value	**Historical cost**	*Current value*	*Historical cost*
	£000	**£000**	*£000*	*£000*
Assets held to cover linked liabilities	**40,903**	**35,723**	*30,959*	*31,198*

13 Group debtors arising out of insurance operations

(a) Group debtors arising out of direct insurance operations

	2003			*2002*		
	General business	**Long term business**	**Total**	*General business*	*Long term business*	*Total*
	£000	**£000**	**£000**	*£000*	*£000*	*£000*
Policyholders	**22,433**	**1,262**	**23,695**	*18,299*	*1,465*	*19,764*
Intermediaries	**39,631**	**-**	**39,631**	*32,029*	*-*	*32,029*
	62,064	**1,262**	**63,326**	*50,328*	*1,465*	*51,793*

(b) 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.

Notes to the Accounts

14 Tangible assets

	2003
Group	£000
Cost:	
At 1 January	**29,710**
Additions	**2,501**
Exchange movements	**300**
Disposals	**(7,963)**
At 31 December	**24,548**
Depreciation:	
At 1 January	**18,352**
Provided in the year	**4,126**
Exchange movements	**132**
Disposals	**(7,486)**
At 31 December	**15,124**
Net book value at 31 December	
General business	**8,605**
Long term business	**819**
	9,424
Net book value at 1 January	
General business	*10,199*
Long term business	*1,159*
	11,358

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

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

Notes to the Accounts

15 Reserves

	Revaluation and other reserves £000	Long term insurance business reserve £000	General reserve £000	Profit and loss account £000	Total £000
Group					
Balance 1 January	-	4,000	10,000	92,224	106,224
Currency translation differences	-	-	-	2,801	2,801
Transfer from profit and loss account	-	-	-	25,310	25,310
Balance 31 December	-	4,000	10,000	120,335	134,335
Parent					
Balance 1 January	101,209	-	-	5,015	106,224
Revaluation of group undertakings	27,993	-	-	-	27,993
Transfer from income and expenditure account	-	-	-	118	118
Balance 31 December	129,202	-	-	5,133	134,335

16 Reconciliation of movements in group shareholders' funds

	2003 £000	*2002 £000*
Retained profit/(loss) for the financial year	25,310	*(10,163)*
Revaluation of long term business	-	*(1,000)*
Currency translation differences	2,801	*(1,137)*
	28,111	*(12,300)*
Opening shareholders' funds	106,224	*118,524*
Closing shareholders' funds	134,335	*106,224*

Notes to the Accounts

17 Minority interests

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

	Profit and loss account		Balance sheet	
	2003	*2002*	**2003**	*2002*
	£000	*£000*	**£000**	*£000*
Non-equity interests				
Ecclesiastical Insurance Office plc				
2.8% First Cumulative Preference shares of £1 each	**2**	*2*	**77**	*77*
10% Redeemable Second Cumulative Preference shares of £1 each	**300**	*300*	**3,000**	*3,000*
8.625% Non-Cumulative Irredeemable Preference shares of £1 each	**2,156**	*2,156*	**25,000**	*25,000*
	2,458	*2,458*	**28,077**	*28,077*

Ecclesiastical Insurance Office plc has the right to redeem all or any of the 10% Redeemable Second Cumulative Preference shares at par together with a premium as follows:

Year of redemption	Premium
2004 to 2007	2½ per cent
2008 to 2012	Nil

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

18 Long term business provision

The long term business provision has been calculated by the Appointed Actuary of the company using the following underlying principal assumptions.

(a) Rates of interest

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

(b) Mortality tables

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

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

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

Notes to the Accounts

19 Claims outstanding

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

Chain Ladder methods extrapolate paid and incurred claim amounts and the number of claims, based on the development of previous accident or underwriting years. This method assumes that previous patterns are a reasonable guide to future developments. Where this assumption is felt to be unreasonable adjustments are made or other methods such as Bornhuetter Ferguson are used. This method enables judgement to be made of the expected impact of loss ratios of both internal and external developments such as portfolio mix movements, changes in public attitudes to claiming, changes in policy cover and changes in the rate of inflation in settlement costs. For smaller portfolios the materiality of the business and data available may also shape the methods used in reviewing reserve adequacy.

The outcome of the ultimate settlement cost of claims is uncertain and an addition is made to the most likely outcome to reflect this and to ensure prudent provisions are made. The addition for prudence is assessed primarily by the Thomas Mack actuarial method, based on at least the 75th percentile confidence level for each portfolio. For smaller portfolios where the Mack method cannot be applied, provisions have been calculated at a level intended to be equally prudent. Where the standard methods cannot allow for changing circumstances, such as latent claims, appropriate further provisions are added. This degree of prudence generally results in a favourable release of provisions, in the current financial year, arising from the settlement of claims relating to previous financial years. The favourable release in 2003 amounted to £6.6 million (*2002:£17.9 million*).

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

20 Equalisation provision

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

Notes to the Accounts

21 Provisions for other risks and charges

The provision shown in the accounts relates to deferred tax in respect of short term timing differences and on unrealised investment gains and restructuring costs.

Group	Deferred tax £000	Restructuring costs £000	2003 Total £000	*2002 Deferred tax £000*
Balance 1 January	10,004	-	10,004	*18,969*
Increase/(decrease) in provisions	7,504	2,200	9,704	*(8,965)*
Balance at 31 December	17,508	2,200	19,708	*10,004*

Deferred tax

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

	2003 £000	*2002 £000*
Unrealised investment gains	31,861	*15,279*
Capital allowances in excess of depreciation	(1,442)	*(1,414)*
Other timing differences	(1,275)	*(1,715)*
Undiscounted provision for deferred tax	29,144	*12,150*
Discount	11,636	*2,146*
Discounted provision for deferred tax	17,508	*10,004*

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

Restructuring costs

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

22 Other creditors including taxation and social security

	2003 £000	*2002 £000*
Amounts falling due within one year:		
Other creditors	**13,555**	*9,141*
Taxation	**1,572**	*1,720*
Corporate business loan	**5,000**	*-*
	20,127	*10,861*
Amounts falling due after more than one year:		
Debenture stock	**6,000**	*6,000*
Corporate business loans	**15,000**	*20,000*
Other creditors	**998**	*1,350*
	21,998	*27,350*
	42,125	*38,211*
Included in other creditors are obligations under lease purchase contracts due:		
In 1 year or less	**525**	*599*
Between 2 and 5 years	**998**	*1,338*
Over 5 years	**-**	*12*
	1,523	*1,949*

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

A corporate business loan of £15,000,000 *(2002:£15,000,000)* is secured against the assets of Allchurches Mortgage Company Limited. Interest is payable at periodic London Interbank Offered Rates plus 0.7%. The final maturity date for the loan facility, totalling £16,000,000, is 23 December 2009.

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

23 Notes to the cash flow statement

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

	2003 £000	*2002 £000*
Profit/(loss) on ordinary activities before tax	42,925	*(6,585)*
Depreciation charges	3,751	*3,037*
Amortisation of fixed interest securities	1,447	*288*
Amortisation of goodwill	430	*475*
Unrealised (gains)/losses on investments	(21,005)	*32,455*
Increase in net general insurance technical provisions	37,449	*23,991*
Loss/(profit) relating to long term business	3,851	*(1,724)*
Cash paid to long term business	-	*(5,000)*
Share of profits of associates	(4)	-
Loan interest payable	1,631	*2,028*
Other interest payable	103	*111*
Realised investment losses/(gains)	1,022	*(4,922)*
Loss on sales of tangible fixed assets	31	*613*
Movement in other debtors and creditors	3,591	*6,795*
Exchange and other non-cash movements	(5,852)	*1,214*
Net cash inflow from operating activities	69,370	*52,776*

(b) Movements in cash, portfolio investments and financing

	At 1 January 2003 £000	Cash flow £000	Changes in long term business £000	Changes in market value exchange and others £000	At 31 December 2003 £000
Cash at bank and in hand	135,662	(10,866)	(26,456)	992	99,332
Shares and other variable yield securities	201,716	7,181	11,624	15,100	235,621
Fixed income securities	299,863	58,630	12,348	9,616	380,457
Land and buildings	19,021	(1,164)	-	1,414	19,271
Assets held to cover linked liabilities	30,959	-	9,944	-	40,903
	687,221	53,781	7,460	27,122	775,584
Loans due within one year	-	-	-	(5,000)	(5,000)
Loans due after one year	(26,000)	-	-	5,000	(21,000)
	661,221	53,781	7,460	27,122	749,584

24 Operating leases

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

	2003		*2002*	
	Premises £000	Equipment £000	*Premises £000*	*Equipment £000*
Commitments				
Expiring:				
Within 1 year	387	545	*382*	*147*
Between 2 and 5 years	972	171	*1,598*	*252*
Over 5 years	1,197	-	*907*	-
Total	2,556	716	*2,887*	*399*
Payments included in operating expenses	2,590	494	*2,510*	*847*

Notes to the Accounts

25 Capital commitments

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

26 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%	
Allchurches Mortgage Company Limited	Ordinary shares	100%	
	6% Non-Cumulative Redeemable Preference shares		100%
Allchurches Investment Management Services Limited	Ordinary shares		100%
Ecclesiastical Life Limited	Ordinary shares		100%
Ansvar Insurance Company Limited	Ordinary shares		100%
Ansvar Pensions Limited	Ordinary shares		100%
Ecclesiastical Insurance Office plc	Ordinary shares		100%
	2.8% First Cumulative Preference shares		69.2%
	9.5% Redeemable Third Non-Cumulative Preference shares		100%
Ecclesiastical Group Asset Management Limited	Ordinary shares		100%
Ecclesiastical Underwriting Management Limited	Ordinary shares		100%
Hinton and Wild (Home Plans) Limited	Ordinary shares		100%
The Churches Purchasing Scheme Limited	Ordinary shares		100%
Ecumenical Insurance Company Limited	Ordinary shares		100%
Incorporated and operating in Australia, engaged in insurance business:			
EIG - Ansvar Limited	Ordinary shares		100%
Incorporated and operating in New Zealand, engaged in insurance business:			
EIG - Ansvar Insurance (New Zealand) Limited	Ordinary shares		100%

In addition, there are nine other wholly owned subsidiary undertakings and a 30% investment in an associated undertaking whose assets and contribution to group income are not significant.

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

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

During the year related party transactions consisting of £606,000 *(2002:£670,000)* school fee annuities were accounted for by the group to Beaufort House Trust Limited, a charity under common control and registered at the same address. Of this £145,000 *(2002:£161,000)* was prepaid at the balance sheet date. This has been accounted for in the long term business technical account.