Company Number 1718196

ECCLESIASTICAL

ECCLESIASTICAL INSURANCE GROUP plc

2011 ANNUAL REPORT

Ecclesiastical Insurance Group plc

2011 Annual Report

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Ecclesiastical Insurance Group plc

Directors and Executive Management

Directors

* W M Samuel BSc, FCA *Chairman*
* Sir Philip Mawer DLitt, LLD *Deputy Chairman*
* D Christie BA, BSc (Econ) Dip Ed
* M D Couve BComm, LLM, MA Law, Solicitor
M C J Hews BSc, FIA *Chief Financial Officer*
* J F Hylands FFA
* A P Latham ACII
* The Right Revd Dr N Peyton MA, BD, STM, PhD *Bishop of Brechin*
M H Tripp BSc, ARCS, FIA *Group Chief Executive*
* Ms D P Wilson BA (Hons), FCII
S A Wood BSc, FCII *Managing Director, UK & Ireland*

Group Executive Team

M H Tripp BSc, ARCS, FIA *Group Chief Executive*
N P Gray FIA
M C J Hews BSc, FIA *Chief Financial Officer*
A C Keate CFP, ACII
D G Lane BComm (Hons)
A Moon MBA, F Fin, MAICD
C M Taplin BSc (Hons), MSc, MBA
S J Whyte MC Inst M, ACII
S A Wood BSc, FCII *Managing Director, UK & Ireland*

Company Secretary

Mrs R J Hall FCIS

Registered and Head Office

Beaufort House,
Brunswick Road,
Gloucester GL1 1JZ
Tel 0845 777 3322

Company Registration Number

1718196

Investment Management Office

19-21 Billiter Street,
London EC3M 2RY
Tel 0845 604 4840

Auditor

Deloitte LLP,
London

Solicitors

Speechly Bircham LLP,
London

* *Non-Executive Directors*

Ecclesiastical Insurance Group plc

Directors' Report

The Directors submit their annual report and accounts for Ecclesiastical Insurance Group plc, together with the consolidated financial statements of the Group for the year ended 31 December 2011

Group Chief Executive's Review of Group Operations

Over the course of 2011 we continued to make progress and grow our business in a turbulent financial environment and highly competitive insurance market We also faced a number of major natural catastrophes, which significantly impacted our underwriting result for the year

Against this backdrop, the business performed well We have been able to hone our strategy and maintain focus on the major initiatives required to move Ecclesiastical forward These form the major elements of our ongoing change programme for the coming year and beyond

Organisational and operating structures

During the year we made a number of changes to our organisational and operating structures On 1 January 2011, we transferred to Ecclesiastical Insurance Office plc (EIO) the business of its UK subsidiary Ansvar Insurance Company Limited (Ansvar) under a Part VII transfer as part of our strategy to reduce the number of companies within the Group Ansvar now operates as a business division of EIO in the UK

We also restructured our UK general insurance operations, with a number of the support functions being more aligned with the business units

In April, the Group launched a new property investors proposition into the London market This move built upon our existing skills and expertise and the Group's strong reputation as a property insurer It is serviced by a specialist team of experienced property underwriters based in our London office

Since the launch we have established ourselves as a credible alternative to those UK insurers who have traditionally dominated this market, and we achieved strong premium growth in 2011 We are targeting further premium growth in this sector in 2012, both in London and the regions Underwriting control will remain with our dedicated team in London to ensure the quality of business written is maintained

As previously reported, our 2011 underwriting result was adversely affected by both the severe floods and storms in Australia and the earthquakes in New Zealand The latter led to the announcement in November of our managed withdrawal from the New Zealand market This is progressing according to plan and our priority remains meeting claims as quickly and fairly as possible We have also refocused our Australian business, withdrawing from the intermediated personal lines business

We have continued to diversify the Group by growing all other areas of the business, including the management of third party investments, our owned broker businesses and long-term insurance supporting retail funeral plan sales, and we have expanded our financial advisory operations

As might be expected, our online presence has been growing the volume of our business transacted via the internet more than doubled during the year

Financial performance

Gross Written Premium (GWP) for our general insurance businesses grew by 4% to £465 million (when excluding our London Market run-off business, Ecclesiastical Underwriting Management Limited (EUML), from the current and prior year figures) This growth was broadly in line with our plans, despite the relatively static general insurance rating environment

Our general insurance businesses were affected particularly by the Australian weather and the New Zealand earthquake events during the year, further detailed later in this review The greatest devastation resulted from the February aftershock in Christchurch, and gross claims incurred exceeded the previous year's largest ever recorded for the Group

To date, the reinsurance programme has responded well to contain net costs for this event However, the total cost of claims for our New Zealand subsidiary in relation to the Canterbury earthquakes continues to evolve and the Board has considered a range of contingent risk management actions to help manage the risk of further adverse developments should these occur

In November, we announced our intention to make an orderly withdrawal from New Zealand in 2012 Our underlying Group Combined Operating Ratio (COR), which has been calculated excluding the exceptional losses in Australasia and related catastrophe reinsurance costs, was 97 5%, broadly in line with our long-term target

Elsewhere, strong profits generated by the property account in the UK were partly offset as the frequency and cost of liability claims continued to escalate

Our owned brokers continued to grow and made increased profit contributions

Despite uncertainty in financial markets, it is pleasing to report that our investment management business further developed as a standalone source of income and profit to the Group

The loss before tax for the year was £3 2 million A breakdown by segment is given in note 5 to the financial statements

As part of our continuing commitment to our charitable owner, Allchurches Trust, we increased the level of our underlying grant to them to £10 25 million (2010 £9 25 million, plus a special grant of £10 million), enabling them to support more good causes

Results of key operations

General insurance

Our UK general insurance operations, including the Ansvar business division, grew in line with our plans during the year in what remains a challenging environment GWP increased by 8% from £303 million to £326 million, adjusted on a management basis to remove our London Market business, which is now in run-off and reported within the 'Other' general insurance segment

In addition to the expansion of our product offering, which generated high profile business wins, retention levels remain high within our core niches, reinforcing our position as a credible insurer in these sectors

We continue to improve our sales and underwriting capability to ensure risk selection is based on sound underwriting principles The development of our academy programme to support this objective is discussed under the 'Our People' heading further on in this review

Underwriting action was taken on the motor account in the UK following the losses reported in 2010 Rating increases have been achieved in specific areas of the account, and risk selection has become more sophisticated Both of these factors contributed to a significant improvement in performance The property account results returned to a healthy profit, with milder winter weather at the latter end of the year Liability claims continue to escalate both in frequency and cost due to a significant increase in 'slip and trip' claims and increases in the number of latent abuse claims We are taking action to improve profitability in the current poorest performing areas, notably in the care sector

Increased brand awareness in Ireland has enabled us to grow in our target markets We achieved 8% GWP growth overall despite uncertain economic conditions As in the UK, 2011 claims were much less severe compared with the freezing weather events which adversely impacted the prior year's performance We have identified opportunities for further growth in Ireland, and have appointed a new Managing Director, David Lane, who will be responsible for the delivery of our future plans

Our Ansvar subsidiaries in Australasia suffered a number of natural catastrophes during the year which severely impacted profit, due to the increased number and cost of claims and also through additional reinsurance costs to back-up and reinstate cover Of the overall £16 9 million underwriting loss for this territory, the Australia business contributed a loss of £11 8 million largely relating to the floods and storms in Queensland and Victoria, along with Cyclone Yasi, all of which occurred in January and February 2011

Our New Zealand business incurred an unusually high level of claims from three significant earthquake aftershocks in the Canterbury region The total gross claims cost from the earthquakes stretching across 2010 and 2011, which continues to evolve, is estimated at NZ$0 8 billion at the end of 2011, with this estimated total covered by our group catastrophe reinsurance programme The net overall underwriting result for New Zealand in 2011 was a loss of £5 1 million

The series of earthquakes in New Zealand has significantly increased the cost of reinsurance protection in this territory, making underwriting uneconomic for the size of our subsidiary This prompted our decision to withdraw from underwriting within New Zealand and the business ceased being on risk from 1 January 2012

Alternative cover has been offered to Direct customers by Lumley Insurance and further back-up cover, excluding earthquake, from Ansvar in Australia

A claims operation will be maintained in New Zealand to manage the earthquake losses This has been an extremely tough year for everyone affected, and we would like to thank our staff for their hard work and professionalism through such a difficult period

Ecclesiastical Insurance Group plc

Directors' Report

During the year we refocused the business in Australia and exited from intermediated personal lines business to concentrate on business within our core niches as planned Growth in our target segments has been promising, and we have further strengthened the team in Australia to give a sharper focus on business development, underwriting disciplines and service delivery

In Canada, the tripartite customer relationship strategy, embedded globally, drove higher-than-average industry retention of 98% and also provided new customer referrals, delivering GWP of £34 million, an increase of approximately 16% There were significant new business successes within the core niches, particularly faith and education However, a number of weather events increased the cost of claims, and, together with a spike in latent abuse claims, resulted in a small underwriting loss

Overall, our run-off operations progressed satisfactorily, including savings recorded on the previous year large claims for our London Market business However, after inclusion of central underwriting expenses and £5 8 million of Group reinsurance reinstatement and back-up costs, this segment reported a loss of £7 3 million

The Group remains committed to reducing its expense ratio (underwriting expenses expressed as a proportion of GWP) and last year made progress against this objective The one-off reductions in GWP relating to EUML and Australasia increased the expense ratio to 18 6% (2010 17 2%), excluding this the ratio remained at or below the 2010 level across our other territories We expect the changes we have made to bring further benefits in future

We successfully piloted a new servicing model in the UK Schemes area, and we will continue to roll this out across the UK businesses to increase efficiency and improve service levels We completed an external benchmarking exercise of all the key functions in the UK and identified several opportunities to reduce costs within the business

We will continue to work to improve the way we operate and to expand our offering, including our internet capability, in order to enhance our reputation for customer service and make us first choice for customers and business partners

Investments
The performance of our investments in 2011 reflects the turbulent market conditions that persisted throughout the year

Despite the low level of economic growth, inflation remained stubbornly above its target level throughout the year, reflecting rising energy and food costs

The FTSE All Share Index fell by 6 7% (2010 +10 9%) The FTSE 100 Index fell less sharply (5 6%), demonstrating its relative defensive properties compared with the falls of 12 6% and 14 9% in the more economically sensitive FTSE 250 Mid Cap Index and Small Cap Index respectively Our UK equity portfolio outperformed these, reflecting its defensive orientation

Overseas, the troubling financial conditions of the Eurozone inevitably contributed to large falls in World indices The March 2011 earthquake, tsunami and nuclear meltdown in Japan and various other factors served to stifle the rate of expansion of the global economy, and our investments were not immune to the impact

Our low exposure to a stronger US performance also dampened our overall equity return The Group pursues a long-term investment strategy, and is relatively well placed to cope with shorter-term periods of volatility As a further defensive measure, during the year, and at year end, derivative contracts were put in place to limit losses in the event of a further substantial fall in equity markets

The FTSE Government All Stocks Index rose 11 0% over the year (2010 +2 8%) reflecting Bank of England intervention and investors' desire for so-called 'safe haven' assets Corporate bonds generally underperformed gilts, reflecting the negative impact of lowered economic expectations and, notably, investor worries about the debilitating effects of the credit crisis on the financial sector

In the UK, our gilt holdings rose less sharply than the market due to their shorter-dated profile Overseas, our bond-weighted portfolios generally benefited from the fact that the global turmoil tended to push yields down and market values up, in particular in Australia where we recorded gains

Ecclesiastical Investment Management
Ecclesiastical Investment Management (EIM) has been a key recent success story for the Group We have reaped the rewards of effective marketing campaigns, becoming a recognised presence on fund platforms and growing our funds under management at an impressive rate

Our funds have continued to receive awards In particular our Amity International Fund was named Best in Sector over 5 years, Best Global Large-Cap Equity Fund and Best Global Growth Fund

Although 2011 was a difficult year for asset managers, our sales achievements were impressive, with £128 million net new funds added to the Ecclesiastical Investment Fund (EIF) (up from £110 million in the previous year), and an additional £14 million invested in our newly launched special charity investment vehicle EIM's fee and commission income grew by 32% to £9 6 million, including £7 4 million in respect of managing external funds and the EIF, and profit increased from £0 5 million to £1 2 million

Long-term insurance
2011 was the first full year in which our life insurance business was focused solely on providing Whole of Life policies to support the funeral planning products made available by business partners such as the National Association of Funeral Directors This mutually beneficial relationship continued to generate strong growth

We increased GWP by some 40% to £19 million, while managing our expense base within planned levels The financial security and transparency of our offering is well regarded in the market, and compares well to alternatives where funeral pre-payment funds are invested in funeral plan trusts Investment conditions, however, continue to prove challenging The significant fall in yields on those index-linked bonds in which we are required to invest reduced the available profit margin, and adversely affected performance On the other hand, we benefited from a number of one-off technical factors that led to an improvement in the pre-tax result, to a profit of £0 7m We have agreed changes to our management fee structure that are designed to improve profitability

Broking
We continued to grow our owned brokers ahead of plans in a competitive environment Good progress was made in defining strategies which promote their independent success

South Essex Insurance Brokers (SEIB) continued to provide a steady income stream and is successfully providing diversification of Group earnings, confirming the strategic rationale for the purchase of this business Both commission and profit increased over 2011 despite the low rating conditions prevalent across the market SEIB continues to build on its relationships with key customers and to grow in its established specialisms

Our aim of continually improving efficiency whilst providing exceptional service was recognised by an award for Customer Service Provider of the Year

We have increased our stake in Lycetts Holdings Limited (Lycetts) during the year and now hold a controlling stake of this business (56 2%) It is envisaged that this stake will increase further over the coming years Lycetts continued to grow organically, with the strongest percentage growth in rural and bloodstock, the two largest divisions of the business It also acquired Farmers and Mercantile Insurance Brokers during the year, increasing the reach of the operation

Our owned brokers present further opportunities for the Group in the years ahead

Advisory
Ecclesiastical Financial Advisory Services (EFAS) provides independent financial planning support and advice to the clergy and their families as well as to the Church and associated customer groups Work has continued on developing our fee-based advice model to replace commission income in the lead-up to implementation of the Retail Distribution Review (RDR) in January 2013

Fee income has grown by 33%, and now represents 23% of new business income In the current climate of uncertainty, we have seen a dip in investor confidence that has delayed investment decisions

Prior to the introduction of RDR, we have been working to ensure that our people gain the necessary adviser qualifications We expect all advisers to become DipFA QCF Level 4 qualified in 2012

Governance
Our ongoing objective is to make sure our governance matches rapidly changing best practice, with the Non-Executive Directors playing an active part in the process

During the year an overarching policy framework was adopted by all Group companies This aims to ensure that policies are applied consistently across all Group operations in accordance with the Risk Framework

We strengthened our approach to Enterprise Risk Management with the appointment of a new Group Risk and Actuarial Director, and to Group Internal Audit with a new Director of Group Internal Audit and Compliance

Our people
Our people continue to be the heart and soul of Ecclesiastical In 2011, we continued to invest in their development and well-being and to support them at every stage of their career with us Our professional academy programme, led by our sales academy, went from strength to strength

Ecclesiastical Insurance Group plc

Directors' Report

Our academy approach – which includes underwriting and claims as well as sales – gives our people the technical skills and support they need to provide the standard of service expected by our customers, whilst maintaining our core disciplines We also continue to invest in Community Relations programmes, which are separately detailed in this document and on our website

Over 300 of our people attended 'bite-size' learning courses which provide short, accessible training on topics such as time management Our 'discovery' talent-spotting programme is designed to recognise employees with potential We are supporting those with the highest potential to take on projects outside their area of work to stretch and develop them

We also re-launched our induction programme to ensure those people joining our organisation get the very best experience in their first months with us During the year we took a difficult decision and, in line with many other companies, limited the accrual of future benefits under our closed final salary pension scheme

In 2011, we welcomed several new senior members to our team, and said goodbye to several too Nigel Gray joined as our Group Risk and Actuarial Director and Caroline Taplin as our HR Director, both have joined our Group Executive Team, and John Schofield joined as Director of Group Internal Audit and Compliance David Lane was appointed Managing Director for Ireland in January 2012 and also joins the Group Executive Team

We said goodbye to Kevin Bogue, our Group Risk and Actuarial Director, who had been with Ecclesiastical for more than 30 years, Graham Johnson, our Transformation Director, and Ronan Foley, Managing Director of our Ireland business I would personally like to thank each of them for their hard work and dedication and wish them the best for the future

Awards

Our awards span various areas of our business

We have already mentioned three investment awards for our Amity International Fund which were from Lipper, Morningstar UK and Money Observer

In addition, the Higher Income Fund won Best in Sector over 3, 5 and 10 years for the fifth consecutive year from Lipper, and was runner-up for the Best Direct Mail Pack Award at the prestigious Money Marketing Awards

EIM won the Moneyfacts Best Ethical Investment Provider award for the third year running, and an Ethical Investment Association Transparency award, which recognised our work in becoming a signatory to the European Transparency Code

SEIB was named Customer Service Provider of the Year at Insurance Age UK Broker Awards 2011, and our sales academy won Employer Partner of the Year in the University of Gloucestershire Enterprise Awards Our Group Credit Management team has received an accreditation for Quality in Credit Management, becoming the first insurer to do so, while our Casualty Claims team won the Training and Development award in the Manchester Insurance Awards

We were shortlisted or runner-up in a long list of further awards including the UK Claims Excellence Awards, British Insurance Awards, Risk Management Awards and Underwriting Service Awards organised by Post Magazine

Outlook

Looking forward, the rating environment is showing no widespread signs of hardening However, we made significant progress in 2011 in improving both our operations and our governance, and I am confident that the actions we have taken will stand us in good stead as we pursue our objective to provide excellent, specialist expertise and distinctive service to all our customers

Michael Tripp
Group Chief Executive, Ecclesiastical Insurance Group plc

Ecclesiastical Insurance Group plc

Directors' Report

Principal activity
The principal activity of the Company is that of an investment holding company Its principal subsidiary is Ecclesiastical Insurance Office plc (EIO) That company heads a group which operates principally as a provider of general insurance in addition to offering a range of financial services, with offices in the UK, Ireland, Canada, Australia and New Zealand A list of the main subsidiary undertakings is given on page 73

Ownership
At 26 April 2012 the entire issued equity capital of the Company was owned by Allchurches Trust Limited

Board of Directors
The Directors of the Company throughout the year and at the date of this report are stated on page 2

The Board has voluntarily chosen to adopt annual re-election of Directors All Directors who have served at the last annual general meeting ('AGM') will be proposed for re-election, at the forthcoming AGM following recommendation from the nominations committee of the Group, excluding Mr M D Couve and The Rt Revd Dr N Peyton who will retire at the forthcoming AGM and will not offer themselves for re-election

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

Neither the Directors nor their connected persons held any beneficial interest in any ordinary shares of group companies during the year ended 31 December 2011 There has been no change in these interests since the end of the financial year to the date of this report

During the prior year, the Group placed £40 million additional Non-cumulative Irredeemable Preference Shares The following Directors of the Company acquired the number of Shares stated below at 102 pence per Share on 16 December 2010

Director	Nature of Interest	Number of EIO Non-cumulative Irredeemable Preference Shares held	
		31 12 2011	31 12 2010
D Christie	Director	11,079	11,079
M D Couve	Director	19,000	19,000
M C J Hews	Connected person	75,342	75,342
The Right Revd Dr N Peyton	Director	3,800	3,800
W M Samuel	Director	151,000	151,000

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

Dividends
The Directors do not recommend the payment of a dividend for the year ended 31 December 2011 (2010 £nil)

Charitable and political donations
Charitable donations paid and provided for by the Group in the year amounted to £11 7 million (2010 £20 6 million)

During the last ten years, a total of £94 9 million (2010 £87 5 million) has been provided by Group companies for church and charitable purposes

It is the Group's policy not to make political donations

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

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

Ecclesiastical Insurance Group plc

Directors' Report

Remuneration policy
The Group's objective is to provide competitive remuneration packages, reflective of the markets in which it operates, in order to attract and retain high calibre employees and to encourage and reward superior performance

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

The remuneration of the Executive Directors and Group Executive Team comprises basic salary, pension contributions, an annual cash incentive, a long-term performance related cash incentive that rolls over three-year periods, and benefits in kind There are no other incentive or share option schemes because of the Group ownership structure and current HMRC guidelines which do not make it possible to facilitate employee holdings of shares, the price of which reflect Group performance

Pension arrangements
Mr S A Wood is a member of the Group's defined benefit pension scheme

The scheme underwent significant changes during 2011 For pensionable service prior to the date of change (1 August 2011), in accordance with the Scheme rules, a common retirement age of 63 applies to all members and pensionable service accrues at a rate of one-eightieth of pensionable salary for each year of service up to a maximum of 40 years Following the change, a common retirement age of 65 applies to all members for pensionable service after 1 August 2011 and pension accrues on a Career Related Average Earnings basis No pension benefits are accrued on bonuses or other benefits Pension benefits for Executive Directors employed after June 1989 are subject to a scheme specific earnings cap and a cash allowance of 17% of salary above the cap is paid in lieu of pension contributions

Mr M H Tripp and Mr M C J Hews are members of the Group's defined contribution scheme which is operated by Engage Mutual

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 2011 was 19 days (2010 30 days)

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

Internal controls
The Board is ultimately responsible for the systems of risk management and internal control maintained by the Group and reviews their appropriateness and effectiveness annually The Board views the management of risk as a key management activity and believes that the Group maintains an adequate and effective system of risk management and internal control and is well placed to comply with the expected requirements of Solvency II

Systems of internal control are designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can provide reasonable, but not absolute, assurance as to the prevention and detection of material financial misstatements, errors, fraud or violation of law or regulations

Directors' Report

The Group embeds risk management into its strategic and business planning activities whereby major risks that could affect the business are identified by responsible management together with an assessment of the effectiveness of the processes and controls in place to manage and mitigate these risks The key features of the control systems are as follows

- The Board approves financial, business and investment strategies and plans, reviews exposure limits and then monitors the results on a regular basis
- The Group operates a comprehensive annual budgetary control system which monitors financial results against business plans, and reports these to the Board on a monthly basis Business and investment reports are also submitted regularly to the Board
- Clearly defined lines of accountability and delegation of authority are in place
- Operating risk is minimised by ensuring that the appropriate infrastructure, controls, systems and people are in place throughout the business
- An organisational design is in place that supports business goals and enables staff to be successful in their roles
- Treasury operations manage the investment of cash balances and exposure to currency transaction risks through treasury policies, risk limits and monitoring procedures

Assurance on the adequacy and effectiveness of internal control systems is obtained through management reviews, control, self-assessment, internal audits and testing of certain aspects of the internal financial control systems by the external auditor during the course of their annual audit

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these financial statements, International Accounting Standard 1 requires that Directors

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance, and
- make an assessment of the Company's ability to continue as a going concern

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006 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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Ecclesiastical Insurance Group plc

Directors' Report

Going concern

A review of the Group's business activities is provided within this Directors' Report In addition, notes 3 and 4 to the financial statements disclose the Group's principal risks and uncertainties, including exposures to insurance and financial risk and the Group's objectives for managing capital The Group has considerable financial resources and, as a consequence, the Directors believe the Group is well-placed to manage its business risks successfully and continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts

Non-adjusting events after the reporting period

Events subsequent to the reporting period are detailed in note 39 to the financial statements

Auditor and the disclosure of information to auditor

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow Directors and the Company's auditor, each Director has taken all the steps that they ought to have taken as a Director in order to make themselves 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 418 of the Companies Act 2006

In accordance with Section 489 of the Companies Act 2006, a resolution proposing that Deloitte LLP be re-appointed as auditor of the Company will be put to the AGM

Non-audit work

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

The auditor of the Company is only permitted to perform audit-related and non-audit work if, in the opinion of the audit committee of the Group, it is appropriate for it to do so and there are no actual or perceived conflicts of interest

By order of the Board

R. Hall

Mrs R J Hall
Secretary

26 April 2012

Ecclesiastical Insurance Group plc

Independent Auditor's Report

Independent auditor's report to the members of Ecclesiastical Insurance Group plc
We have audited the financial statements of Ecclesiastical Insurance Group plc for the year ended 31 December 2011 which comprise the consolidated income statement, the consolidated and parent company statement of comprehensive income, the consolidated and parent company statement of changes in equity, the consolidated and parent company statement of financial position, the consolidated and parent company statement of cash flows and the related notes 1 to 40 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 auditor's 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 Auditor
As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2011 and of the Group's loss for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation

Ecclesiastical Insurance Group plc

Independent Auditor's Report

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Colin Rawlings (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
26 April 2012

Ecclesiastical Insurance Group plc

Consolidated Income Statement

for the year ended 31 December 2011

	Notes	2011 £000	2010 £000
Revenue			
Gross written premiums	5, 6	**484,205**	487,927
Outward reinsurance premiums	6	**(172,679)**	(171,083)
Net change in provision for unearned premiums	6	**5,897**	(14,306)
Net earned premiums		**317,423**	302,538
Fee and commission income	5	**70,268**	51,071
Other operating income		**1,118**	1,167
Net investment return	7	**21,387**	86,104
Total revenue		**410,196**	440,880
Expenses			
Claims and change in insurance liabilities	8	**(648,187)**	(374,473)
Reinsurance recoveries	8	**424,852**	163,398
Fees, commissions and other acquisition costs	9	**(112,224)**	(95,160)
Other operating and administrative expenses		**(81,472)**	(71,262)
Change in net asset value attributable to unitholders		**-**	(13,080)
Total operating expenses		**(417,031)**	(390,577)
Operating (loss)/profit		**(6,835)**	50,303
Finance costs	14	**(2,716)**	(908)
Share of profit after tax of associate and joint venture	15	**547**	1,100
Fair value gain on step acquisition of subsidiary	19	**1,121**	-
(Loss)/profit before tax	5	**(7,883)**	50,495
Tax credit/(expense)	16	**4,725**	(13,328)
(Loss)/profit for the year from continuing operations		**(3,158)**	37,167
Net loss attributable to discontinued operations	17	**-**	(2,281)
(Loss)/profit for the year	10	**(3,158)**	34,886
Attributable to			
Equity holders of the parent		**(12,364)**	29,672
Non-controlling interests		**9,206**	5,214
		(3,158)	34,886

Ecclesiastical Insurance Group plc

Consolidated and Parent Statement of Comprehensive Income

for the year ended 31 December 2011

	2011		2010	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
Net fair value gains/(losses) on property	**47**	-	(56)	-
Actuarial losses on derecognised pension asset	**156**	-	-	-
(Loss)/gain on currency translation differences	**(425)**	-	10,124	-
Net (expense)/income recognised directly in equity	**(222)**	-	10,068	-
(Loss)/profit for the year	**(3,158)**	**(1,406)**	34,886	302
Total comprehensive income	**(3,380)**	**(1,406)**	44,954	302
Attributable to				
Equity holders of the parent	**(12,586)**	**(1,406)**	39,740	302
Non-controlling interests	**9,206**	-	5,214	-
	(3,380)	**(1,406)**	44,954	302

Ecclesiastical Insurance Group plc

Consolidated and Parent Statement of Changes in Equity

for the year ended 31 December 2011

	Attributable to equity holders of the parent						Non-	
	Share capital	Equalisation reserve	Revaluation reserve	Translation reserve	Retained earnings	Total	controlling interests	Total Equity
Group	£000	£000	£000	£000	£000	£000	£000	£000
At 1 January 2011	20,000	18,679	924	28,620	305,319	373,542	100,453	473,995
Total comprehensive income	-	-	47	(425)	(12,208)	(12,586)	9,206	(3,380)
Acquisition of subsidiary	-	-	-	-	-	-	21,214	21,214
Acquisition of non-controlling interest	-	-	-	-	200	200	(573)	(373)
Dividends	-	-	-	-	-	-	(8,664)	(8,664)
Net charitable grant to ultimate parent	-	-	-	-	(7,534)	(7,534)	-	(7,534)
Reserve transfers	-	4,040	-	-	(4,040)	-	-	-
At 31 December 2011	20,000	22,719	971	28,195	281,737	353,622	121,636	475,258
At 1 January 2010	20,000	21,674	980	18,496	286,512	347,662	60,453	408,115
Total comprehensive income	-	-	(56)	10,124	29,672	39,740	5,214	44,954
Capital contributions from minority interests	-	-	-	-	-	-	40,000	40,000
Dividends	-	-	-	-	-	-	(5,214)	(5,214)
Net charitable grant to ultimate parent	-	-	-	-	(13,860)	(13,860)	-	(13,860)
Reserve transfers	-	(2,995)	-	-	2,995	-	-	-
At 31 December 2010	20,000	18,679	924	28,620	305,319	373,542	100,453	473,995
Parent								
At 1 January 2011	20,000	-	-	-	6,395	26,395		
Total comprehensive income attributable to equity holders	-	-	-	-	(1,406)	(1,406)		
Group tax relief in excess of standard rate	-	-	-	-	303	303		
At 31 December 2011	20,000	-	-	-	5,292	25,292		
At 1 January 2010	20,000	-	-	-	5,429	25,429		
Total comprehensive income attributable to equity holders	-	-	-	-	302	302		
Group tax relief in excess of standard rate	-	-	-	-	664	664		
At 31 December 2010	20,000	-	-	-	6,395	26,395		

The equalisation reserve is not distributable and must be kept in compliance with the insurance companies' reserves regulations The revaluation reserve represents cumulative net fair value gains on owner-occupied property The translation reserve arises on consolidation of the Group's foreign operations

Retained earnings of the Group includes a specific non-distributable reserve of a subsidiary amounting to £4,200,000 (2010 £4,200,000)

Ecclesiastical Insurance Group plc

Consolidated and Parent Statement of Financial Position

at 31 December 2011

	Notes	2011 Group £000	2011 Parent £000	2010 Group £000	2010 Parent £000
Assets					
Goodwill and other intangible assets	20	**68,932**	-	25,923	-
Deferred acquisition costs	21	**35,788**	-	41,482	-
Deferred tax assets	34	**5,532**	-	4,520	-
Pension assets	22	**33,713**	-	30,185	-
Investment in associate and joint venture	15	**554**	-	21,764	20,248
Property, plant and equipment	23	**9,987**	-	9,417	-
Investment property	24	**27,473**	-	24,641	-
Financial investments	25	**832,979**	**37,632**	837,584	15,000
Reinsurers' share of contract liabilities	31	**541,050**	-	286,194	-
Current tax recoverable		**3,882**	-	110	-
Other assets	27	**137,824**	**1,030**	128,963	1,090
Cash and cash equivalents	28	**174,114**	**2,920**	170,266	1,912
Total assets		**1,871,828**	**41,582**	1,581,049	38,250
Equity					
Share capital	29	**20,000**	**20,000**	20,000	20,000
Retained earnings and other reserves		**333,622**	**5,292**	353,542	6,395
Equity attributable to equity holders of the parent		**353,622**	**25,292**	373,542	26,395
Non-controlling interests	30	**121,636**	-	100,453	-
Total equity		**475,258**	**25,292**	473,995	26,395
Liabilities					
Insurance contract liabilities	31	**1,249,625**	-	965,309	-
Borrowings	32	**1,937**	**16,161**	7,898	11,391
Provisions for other liabilities	33	**8,717**	-	11,227	-
Retirement benefit obligations	22	**12,760**	-	8,652	-
Deferred tax liabilities	34	**35,914**	**37**	42,502	182
Current tax liabilities		**1,984**	-	2,714	-
Deferred income	35	**17,584**	-	20,599	-
Other liabilities	36	**68,049**	**92**	48,153	282
Total liabilities		**1,396,570**	**16,290**	1,107,054	11,855
Total equity and liabilities		**1,871,828**	**41,582**	1,581,049	38,250

The financial statements of Ecclesiastical Insurance Group plc, registered number 1718196, on pages 13 to 74 were approved by the Board of Directors on 26 April 2012 and signed on their behalf by

M H TRIPP Group Chief Executive

Ecclesiastical Insurance Group plc

Consolidated and Parent Statement of Cash Flows

for the year ended 31 December 2011	2011		2010	
	Group	Parent	Group	Parent
	£000	£000	£000	£000
(Loss)/profit before tax	**(7,883)**	**(2,352)**	50,495	(34)
Adjustments for				
Loss before tax on discontinued operations	-	-	(1,858)	-
Fair value on step acquisition of subsidiary	(1,121)	-	-	-
Depreciation of property, plant and equipment	2,406	-	2,490	-
Loss on disposal of property, plant and equipment	85	-	356	-
Amortisation of intangible assets	2,800	-	2,050	-
Share of profit of associate and joint venture	(547)	-	(1,100)	-
Net fair value losses/(gains) on financial instruments and investment property	18,869	373	(43,902)	146
Actuarial losses on derecognised pension asset	156	-	-	-
Dividend and interest income	(38,142)	(1,082)	(53,864)	(1,025)
Finance and share issue expenses	2,716	2,648	1,281	849
Changes in operating assets and liabilities				
Net increase in insurance contract liabilities	281,087	-	140,245	-
Net increase in reinsurers' share of contract liabilities	(251,366)	-	(78,914)	-
Net increase in investment contract liabilities	-	-	4,005	-
Net decrease/(increase) in deferred acquisition costs	5,555	-	(2,561)	-
Net (increase)/decrease in other assets	(1,272)	361	(13,950)	(924)
Net (decrease)/increase in operating liabilities	(4,630)	(8)	(382)	942
Net increase in other liabilities	1,595	-	113,968	-
Cash generated/(used) by operations	**10,308**	**(60)**	118,359	(46)
Dividends received	8,588	779	18,047	1,536
Interest received	28,704	26	34,131	2
Interest paid	(915)	(848)	(932)	(849)
Tax paid	(4,655)	258	(8,832)	213
Net cash from operating activities	**42,030**	**155**	160,773	856
Cash flows from investing activities				
Purchases of property, plant and equipment	(1,521)	-	(1,536)	-
Proceeds from the sale of property, plant and equipment	8	-	42	-
Purchases of intangible assets	(1,533)	-	(1,467)	-
Acquisition of businesses, net of cash acquired	8,403	(2,757)	(3,403)	(3,403)
Disposal of businesses, net of cash transferred	-	-	(587)	-
Cash derecognised on deconsolidation of OEICs	-	-	(31,554)	-
Purchases of financial investments and investment property	(365,815)	-	(333,903)	-
Sale of financial instruments	349,223	-	168,538	25
Net cash used by investing activities	**(11,235)**	**(2,757)**	(203,870)	(3,378)
Cash flows from financing activities				
Payment of finance lease liabilities	(523)	-	(336)	-
(Repayment of)/proceeds from other borrowings	(7,800)	2,969	-	3,391
Acquisition of non-controlling interests	(373)	-	-	-
Capital contributions from non-controlling interests	-	-	39,827	-
Payment of group tax relief in excess of standard rate	-	664	-	-
Dividends paid to non-controlling interests of subsidiaries	(8,664)	-	(5,214)	-
Donations paid to ultimate parent undertaking	(10,250)	-	(23,750)	-
Net cash (used by)/from financing activities	**(27,610)**	**3,633**	10,527	3,391
Net increase/(decrease) in cash and cash equivalents	**3,185**	**1,031**	(32,570)	869
Cash and cash equivalents at beginning of year	170,266	1,912	197,986	1,052
Exchange gains/(losses) on cash and cash equivalents	663	(23)	4,850	(9)
Cash and cash equivalents at end of year	**174,114**	**2,920**	170,266	1,912

1 Accounting policies

Ecclesiastical Insurance Group plc (hereafter referred to as the "Company", or "Parent"), a public limited company incorporated and domiciled in England, together with its subsidiaries (collectively, the "Group") operates principally as a provider of general insurance in addition to a range of financial services, with offices in the UK, Ireland, Canada, Australia and New Zealand The principal accounting policies adopted in preparing the Group's International Financial Reporting Standards (IFRS) financial statements are set out below

Basis of preparation

The Group's consolidated financial statements have been prepared using the following accounting policies, which are in accordance with IFRS applicable at 31 December 2011 issued by the International Accounting Standards Board and endorsed by the European Union The financial statements have been prepared on the historical cost basis, except for the revaluation of properties and certain financial instruments

A review of the Group's business activities is provided within the Review of Group Operations In addition, notes 3 and 4 to the financial statements disclose the Group's principal risks and uncertainties, including exposures to insurance and financial risk and the Group's objectives for managing capital The Group has considerable financial resources and, as a consequence, the directors believe the Group is well-placed to manage its business risks successfully and continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts

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

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

In the current year, the Group has adopted IAS 24 (Revised), *Related Party Disclosures* and *Improvements to IFRSs 2010* Neither of these had a significant impact on the financial statements

At the date of authorisation of these financial statements, the following Standards and Amendments which have not been applied in these financial statements were in issue but not yet effective (and had not yet been adopted by the EU)

- IAS 19 (Revised), Employee Benefits
- IAS 27 (Revised), Separate Financial Statements
- IAS 28 (Revised), Investments in Associates and Joint Ventures
- IFRS 10, Consolidated Financial Statements
- IFRS 11, Joint Arrangements
- IFRS 12, Disclosures of Interests in Other Entities
- IFRS 13, Fair Value Measurement
- Amendment to IAS 1 (Revised), Presentation of Financial Statements
- Amendment to IAS 32, Financial Instruments Presentation
- Amendments to IFRS 7 and IFRS 9 (Revised), Financial Instruments

On adoption of IAS 19 (Revised), the expected return on plan assets will match the rate used to discount the defined benefit obligation The 'corridor method' will be removed and any actuarial gains and losses arising will be recognised in full On adoption of the amendment to IAS 1 (Revised), there will be a presentational change to the statement of comprehensive income On adoption of the amendment to IFRS 7, there will be new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position The adoption of the other Standards and Amendments is not expected to significantly impact the Group

The Group has no transactions within the scope of other new or revised Standards or Interpretations which were effective or issued in the year

As permitted by Section 408 of the Companies Act 2006, a separate profit and loss account for the Company is not presented

Use of estimates

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

1 Accounting policies (continued)

Operating profit or loss

Operating profit or loss is stated before finance costs

Basis of consolidation

Subsidiaries

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

In the Parent statement of financial position, subsidiaries are accounted for within financial investments at cost, in accordance with IAS 27, *Consolidated and Separate Financial Statements*

The Group uses the acquisition method of accounting to account for business combinations The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, non-controlling interests are measured either at fair value or at a proportionate share of the identifiable net assets of the acquiree Goodwill is measured as the excess of the aggregate of the consideration transferred, the non-controlling interests and, for an acquisition achieved in stages, the fair value of previously held equity interest, over the fair value of the identifiable net assets acquired If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised directly in the income statement

For business combinations involving entities or businesses under common control, the cost of the acquisition equals the value of net assets transferred, as recognised by the transferor at the date of the transaction No goodwill arises on such transactions

Joint ventures

Joint ventures are those entities whereby the Group and other parties undertake an economic activity which is subject to joint control arising from contractual agreements

Investments in joint ventures are included in the consolidated financial statements using the equity method from the date that joint control commences until the date that joint control ceases Joint ventures are initially recognised at cost, identified on acquisition The Group's share of its joint ventures' post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves Losses of a joint venture in excess of the Group's interest in that joint venture are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture The cumulative post-acquisition movements are adjusted against the carrying amount of the investment Gains or losses on transactions between the Group and its joint ventures are eliminated on consolidation to the extent of the Group's interest in the joint venture

In the Parent statement of financial position, joint ventures are accounted for at cost, in accordance with IAS 27, *Consolidated and Separate Financial Statements*

Associates

Associates are those entities in which the Group, directly or indirectly, has the power to significantly influence the financial and operating policies in order to gain economic benefits, but which it does not control It is generally presumed that an entity is an associate of the Group if at least 20% of the voting rights are controlled, but less than the 50% required to govern

Investments in associates are included in the consolidated financial statements using the equity method from the date that significant influence commences until the date that significant influence ceases Associates are initially recognised at cost, including goodwill (net of any accumulated impairment loss) identified on acquisition The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves The cumulative post-acquisition movements are adjusted against the carrying amount of the investment Gains or losses on transactions between the Group and its associates are eliminated on consolidation to the extent of the Group's interest in the associate

In the Parent statement of financial position, associates are accounted for at cost, in accordance with IAS 27, *Consolidated and Separate Financial Statements*

1 Accounting policies (continued)

Investment vehicles

Investment vehicles such as mutual funds, where the Group has a controlling interest, are consolidated The non-controlling interests in these vehicles are classified as liabilities and appear as net asset value attributable to unitholders in the consolidated statement of financial position

Foreign currency translation

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

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

Product classification

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts Contracts that do not transfer significant insurance risk are classified as investment or service contracts All of the Group's long-term business contracts are classified as insurance 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 The Group does not have any such participating contracts (referred to as with-profit contracts) All of the company's long-term business contracts are referred to as non-profit contracts in the financial statements

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

Insurance contract premiums are recognised as revenue when the liabilities arising from them are created

Revenue from investment contracts

Fees charged for investment management services are recognised as revenue when 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

Fee and commission income

Fee and commission income consists primarily of reinsurance commissions receivable in addition to income from the Group's insurance broking activities, investment fund management fees, distribution fees from mutual funds and commission revenue from the sale of mutual fund shares Reinsurance commissions receivable and other commission income are recognised on the trade date Income generated from insurance placements is recognised at the inception date of the cover Revenue from investment management fees and distribution fees is recognised when earned

Net investment return

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

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

1 Accounting policies (continued)

Claims

Long-term insurance business claims and death claims are accounted for when notified

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 year end 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 year end date Any estimate represents a determination within a range of possible outcomes Claims provisions are not discounted

(ii) Provision for unearned premiums

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

(iii) Liability adequacy

At each reporting date, the Group reviews its unexpired risks and carries out a liability adequacy test for any overall excess of expected claims and deferred acquisition costs over unearned premiums, using the current estimates of future cash flows under its contracts Unexpired risks are assessed separately for each class of business Surpluses and deficits are offset where business classes are considered to be managed together

Long-term business provisions

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

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

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, except for the reinsurance of existing long-term business contracts for which the written premiums have been accounted for in previous periods

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

Intangible assets

Goodwill

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

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

1 Accounting policies (continued)

Computer software

Computer software is carried at historical cost less accumulated amortisation, and amortised over a useful life of between three and five years, using the straight-line method The amortisation charge for the period is included in the income statement under other operating and administrative expenses

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 the period is included in the income statement under other operating and administrative expenses

Property, plant and equipment

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

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

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

Where the carrying amount of an item carried at historical cost less accumulated depreciation is greater than its estimated recoverable amount, it is written down to its recoverable amount by way of an impairment charge to the income statement

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

Investment property

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

Financial instruments

IAS 39 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 or loss and those held for trading are subsequently carried at fair value Changes in fair value are included in the income statement in the period in which they arise, and
- all other financial assets and liabilities are held at amortised cost, using the effective interest method (except for short-term receivables and payables 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

Offset of financial assets and financial liabilities

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position, 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

1 Accounting policies (continued)

Financial investments

The Group classifies its financial investments as either financial assets at fair value through profit or loss (designated as such or held for trading) or loans and receivables

Financial assets at fair value through profit or loss

Financial 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 Financial 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 where available There is no current intention to dispose of these investments

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 uncollectable, it is written off as impaired Subsequent recoveries are credited to the income statement

Derivative financial instruments

Derivative financial instruments include financial instruments that derive their value from underlying equity instruments or foreign exchange rates For a variety of reasons, Group derivative transactions, while providing effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under the specific IFRS rules and are therefore treated as derivatives held for trading All derivatives are initially recognised in the statement of financial position 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 net investment return 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 statement of financial position 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 statement of financial position within cash and cash equivalents

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 No acquisition costs have been deferred on the Group's existing long-term business

Cash and cash equivalents

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

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

1 Accounting policies (continued)

Leases

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

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

Provisions and contingent liabilities

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

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

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

Employee benefits

Pension obligations

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

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

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

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

Other post-employment obligations

Some Group companies provide post-employment healthcare benefits to their retirees The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans Actuarial gains and losses are recognised immediately in the income statement Independent qualified actuaries value these obligations annually

Other benefits

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

1 Accounting policies (continued)

Taxation

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

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

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

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

Deferred tax assets and liabilities are not discounted

Borrowings

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

Appropriations

Dividends

Dividends on Ordinary shares are recognised in equity in the period in which they are declared and, for the final dividend, approved by shareholders

Charitable grant to ultimate parent undertaking

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

2 Critical accounting estimates, and judgements in applying accounting policies

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

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

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

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

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

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

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

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

In addition to the best estimates of future deaths, investment returns and administration expenses, a margin for risk and uncertainty is added to these assumptions in calculating the liabilities of long-term contracts

(c) Pension and other post-employment benefits

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

In determining the appropriate discount rate, the Group considered interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability The expected rate of medical cost inflation has been determined by comparing the historical relationship of the actual medical cost increases with the rate of inflation Other key assumptions for the pension and post-employment benefit costs and credits are based in part on current market conditions Additional information is disclosed in note 22

3 Insurance risk

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

The principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities, which may occur if the frequency or severity of claims and benefits are greater than estimated Insurance events are unpredictable and the actual level of claims and benefits may vary from year to year from the 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, earthquake or flood damage The greatest likelihood of an aggregation of claims arises from weather, earthquake 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, the courts move to periodic payments awards 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

3 Insurance risk (continued)

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

Concentrations of risk

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

Group		Type of risk				
		Property	**Liability**	**Motor**	**Accident**	**Total**
2011		**£000**	**£000**	**£000**	**£000**	**£000**
Territory						
United Kingdom	Gross	**207,179**	**73,747**	**37,290**	**14,372**	**332,588**
	Net	**105,887**	**66,770**	**35,625**	**13,500**	**221,782**
Australia and New Zealand	Gross	**54,573**	**22,861**	**6,251**	**1,126**	**84,811**
	Net	**8,433**	**17,693**	**5,986**	**975**	**33,087**
Canada	Gross	**25,251**	**8,968**	**-**	**-**	**34,219**
	Net	**19,297**	**8,140**	**-**	**-**	**27,437**
Ireland	Gross	**7,652**	**5,626**	**6**	**181**	**13,465**
	Net	**4,795**	**5,131**	**5**	**168**	**10,099**
Total	Gross	**294,655**	**111,202**	**43,547**	**15,679**	**465,083**
	Net	**138,412**	**97,734**	**41,616**	**14,643**	**292,405**
2010						
Territory						
United Kingdom	Gross	216,635	72,891	33,788	13,226	336,540
	Net	115,614	65,583	31,962	12,187	225,346
Australia and New Zealand	Gross	67,603	19,402	8,509	817	96,331
	Net	22,645	16,508	8,015	690	47,858
Canada	Gross	21,307	7,838	-	-	29,145
	Net	13,529	7,284	-	-	20,813
Ireland	Gross	7,252	4,986	4	148	12,390
	Net	4,586	4,580	4	136	9,306
Total	Gross	312,797	105,117	42,301	14,191	474,406
	Net	156,374	93,955	39,981	13,013	303,323

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, theft, business interruption, weather damage, subsidence and accidental damage to insured vehicles 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 event that gives rise to the claim 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

3 Insurance risk (continued)

Liability classes

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

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

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

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

Note 31 presents the development of the estimate of ultimate claim cost for public and employers' liability claims occurring in a given year This gives an indication of the accuracy of the estimation technique for incurred claims

Sources of uncertainty

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

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

Prudence in the provisions for outstanding claims

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

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 reflected this uncertainty and believes that it holds adequate reserves for latent claims that may result from exposure periods up to the reporting date

3 Insurance risk (continued)

(b) Long-term business fund

The Group provides Whole of Life insurance policies to support funeral planning products, for most of which the future benefits are linked to inflation

The principal insurance risk that the Group faces under these contracts is that the actual claims payments exceed the carrying amount of the insurance liabilities, which may occur if the timing of claims are different from assumed Insurance events are unpredictable and the actual level of claims may vary from year to year from the estimate established using actuarial techniques

Uncertainty in the estimation of the timing of future claims arises from the unpredictability of long-term changes in overall levels of mortality The Group bases these estimates on standard industry and national mortality tables The most significant factors that could alter the expected mortality rates profile are epidemics, widespread changes in lifestyle and continued improvement in medical science and social conditions The primary risk on these contracts is the level of future investment returns on the assets backing the liabilities over the life of the policyholders The investment risk within this has been largely mitigated by holding fixed interest assets of a similar term to the expected liabilities profile The mortality risk is retained by the Group and directly impacts shareholders' equity

The amount reserved under the long-term business technical provision is set out below

	Non-profit fund	
	2011	2010
	£000	£000
Long-term business provision		
Life assurance - funeral plan business	**81,714**	60,663
Total technical provisions excluding outstanding claims	**81,714**	60,663

4 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 contracts The most important components of financial risk are interest rate risk, credit risk, currency risk and equity price risk

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

(a) Categories of financial instruments

	Financial assets			Financial liabilities			
Group	**Designated at fair value £000**	**Held for trading £000**	**Loans and receivables* £000**	**Held for trading £000**	**At amortised cost £000**	**Other assets and liabilities £000**	**Total £000**
At 31 December 2011							
Financial investments	**819,564**	**2,298**	**11,117**	**-**	**-**	**-**	**832,979**
Other assets	**-**	**-**	**134,422**	**-**	**-**	**3,402**	**137,824**
Cash and cash equivalents	**-**	**-**	**174,114**	**-**	**-**	**-**	**174,114**
Borrowings	**-**	**-**	**-**	**-**	**-**	**(1,937)**	**(1,937)**
Other liabilities	**-**	**-**	**-**	**(1,432)**	**(59,563)**	**(7,054)**	**(68,049)**
Net other	**-**	**-**	**-**	**-**	**-**	**(599,673)**	**(599,673)**
Total	**819,564**	**2,298**	**319,653**	**(1,432)**	**(59,563)**	**(605,262)**	**475,258**
At 31 December 2010							
Financial investments	824,907	-	12,677	-	-	-	837,584
Other assets	-	-	125,868	-	-	3,095	128,963
Cash and cash equivalents	-	-	170,266	-	-	-	170,266
Borrowings	-	-	-	-	(6,000)	(1,898)	(7,898)
Other liabilities	-	-	-	-	(40,028)	(8,125)	(48,153)
Net other	-	-	-	-	-	(606,767)	(606,767)
Total	824,907	-	308,811	-	(46,028)	(613,695)	473,995

** Cash and cash equivalents have been presented with loans and receivables*

4 Financial risk and capital management (continued)

Parent	Financial assets			Financial liabilities			
	Designated at fair value £000	Held for trading £000	Loans and receivables* £000	Held for trading £000	At amortised cost £000	Other assets and liabilities £000	Total £000
At 31 December 2011							
Financial investments	3,048	-	-	-	-	34,584	37,632
Other assets	-	-	1,030	-	-	-	1,030
Cash and cash equivalents	-	-	2,920	-	-	-	2,920
Borrowings	-	-	-	-	(16,161)	-	(16,161)
Other liabilities	-	-	-	-	(92)	-	(92)
Net other	-	-	-	-	-	(37)	(37)
Total	3,048	-	3,950	-	(16,253)	34,547	25,292
At 31 December 2010							
Financial investments	3,421	-	-	-	-	11,579	15,000
Other assets	-	-	1,090	-	-	-	1,090
Cash and cash equivalents	-	-	1,912	-	-	-	1,912
Borrowings	-	-	-	-	(11,391)	-	(11,391)
Other liabilities	-	-	-	-	(282)	-	(282)
Net other	-	-	-	-	-	20,066	20,066
Total	3,421	-	3,002	-	(11,673)	31,645	26,395

** Cash and cash equivalents have been presented with loans and receivables*

(b) Fair value hierarchy

The fair value measurement basis used to value those financial assets and financial liabilities held at fair value is categorised into a fair value hierarchy as follows

Level 1 fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities This category includes listed equities in active markets, listed debt securities in active markets and exchange-traded derivatives

Level 2 fair values measured using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i e as prices) or indirectly (i e derived from prices) This category includes listed debt or equity securities in a market that is not active and derivatives that are not exchange traded

Level 3 fair values measured using inputs for the asset or liability that are not based on observable market data (unobservable inputs) This category includes unlisted equities, including investments in venture capital, and suspended securities The effect of reasonably possible changes to the assumptions used in determining the fair value of these assets is not significant to the values disclosed

There have been no transfers between the different levels of investments in the current year

4 Financial risk and capital management (continued)
Analysis of fair value measurement bases

Group	Fair value measurement at the end of the reporting period based on			
	Level 1	**Level 2**	**Level 3**	**Total**
At 31 December 2011	**£000**	**£000**	**£000**	**£000**
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	**233,885**	**992**	**20,273**	**255,150**
Debt securities	**562,093**	**2,095**	**226**	**564,414**
Currency options	**-**	**2,298**	**-**	**2,298**
	795,978	**5,385**	**20,499**	**821,862**
Financial liabilities at fair value through profit or loss				
Other liabilities				
Derivative liabilities	**1,432**	**-**	**-**	**1,432**
	1,432	**-**	**-**	**1,432**
At 31 December 2010				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	250,936	916	22,564	274,416
Debt securities	546,795	3,411	285	550,491
	797,731	4,327	22,849	824,907

Parent	Fair value measurement at the end of the reporting period based on			
	Level 1	Level 2	Level 3	Total
At 31 December 2011	£000	£000	£000	£000
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	**-**	**-**	**3,048**	**3,048**
	-	**-**	**3,048**	**3,048**
At 31 December 2010				
Financial assets at fair value through profit or loss				
Financial investments				
Equity securities	-	-	3,421	3,421
	-	-	3,421	3,421

4 Financial risk and capital management (continued)

Fair value measurements based on level 3

Fair value measurements in level 3 for both the Group and Parent consist of financial assets, analysed as follows

Group	**Financial assets at fair value through profit or loss**		
	Equity securities	**Debt securities**	**Total**
At 31 December 2011	**£000**	**£000**	**£000**
Opening balance	**22,564**	**285**	**22,849**
Total losses recognised in profit or loss	**(2,304)**	**(53)**	**(2,357)**
Acquisition of subsidiary	**13**	**-**	**13**
Purchases	**-**	**25**	**25**
Disposal proceeds	**-**	**(31)**	**(31)**
Closing balance	**20,273**	**226**	**20,499**
Total losses for the period included in profit or loss for assets held at the end of the reporting period	**(2,304)**	**(53)**	**(2,357)**
At 31 December 2010			
Opening balance	23,533	587	24,120
Total (losses)/gains recognised in profit or loss	(872)	103	(769)
Purchases	-	50	50
Disposal proceeds	-	(134)	(134)
Disposal of business	(97)	(321)	(418)
Closing balance	22,564	285	22,849
Total (losses)/gains for the period included in profit or loss for assets held at the end of the reporting period	(872)	34	(838)

Parent	**Financial assets at fair value through profit or loss**		
	Equity securities	**Debt securities**	**Total**
At 31 December 2011	**£000**	**£000**	**£000**
Opening balance	**3,421**	**-**	**3,421**
Total losses recognised in profit or loss	**(373)**	**-**	**(373)**
Closing balance	**3,048**	**-**	**3,048**
Total losses for the period included in profit or loss for assets held at the end of the reporting period	**(373)**	**-**	**(373)**
At 31 December 2010			
Opening balance	3,567	-	3,567
Total losses recognised in profit or loss	(146)	-	(146)
Closing balance	3,421	-	3,421
Total losses for the period included in profit or loss for assets held at the end of the reporting period	(146)	-	(146)

All the above gains or losses included in profit or loss for the period (for both the Group and Parent) are presented in net investment return within the income statement

4 Financial risk and capital management (continued)
(c) Interest rate risk
The table below summarises the maturity dates for those assets and liabilities that are exposed to interest rate risk

	Maturity			
	Within 1 year	Between 1 & 5 years	After 5 years	Total
Group	£000	£000	£000	£000
At 31 December 2011				
Assets				
Debt securities	**83,316**	**331,122**	**149,976**	**564,414**
Mortgage and other loans	**-**	**1,414**	**9,683**	**11,097**
Loans to related parties	**390**	**-**	**-**	**390**
Other assets including insurance receivables	**30,882**	**-**	**-**	**30,882**
Cash and cash equivalents	**174,114**	**-**	**-**	**174,114**
	288,702	**332,536**	**159,659**	**780,897**
Liabilities (undiscounted)				
Finance lease obligations	**303**	**1,822**	**-**	**2,125**
Non-profit long-term business provisions	**4,847**	**18,641**	**79,153**	**102,641**
	5,150	**20,463**	**79,153**	**104,766**
At 31 December 2010				
Assets				
Debt securities	168,188	255,006	127,297	550,491
Mortgage and other loans	-	1,329	11,327	12,656
Loans to related parties	390	-	-	390
Other assets including insurance receivables	30,882	-	-	30,882
Cash and cash equivalents	170,266	-	-	170,266
	369,726	256,335	138,624	764,685
Liabilities (undiscounted)				
13% Debenture Stock 2018	-	-	6,000	6,000
Finance lease obligations	249	1,846	-	2,095
Non-profit long-term business provisions	3,771	14,976	63,153	81,900
	4,020	16,822	69,153	89,995

4 Financial risk and capital management (continued)

	Maturity Within 1 year £000	Maturity Between 1 & 5 years £000	Maturity After 5 years £000	Total £000
Parent				
At 31 December 2011				
Assets				
Cash and cash equivalents	2,920	-	-	2,920
	2,920	-	-	2,920
Liabilities (undiscounted)				
Loans from related parties	-	-	16,161	16,161
	-	-	16,161	16,161
At 31 December 2010				
Assets				
Cash and cash equivalents	1,912	-	-	1,912
	1,912	-	-	1,912
Liabilities (undiscounted)				
13% Debenture Stock 2018	-	-	6,000	6,000
Loans from related parties	-	-	5,391	5,391
	-	-	11,391	11,391

Those financial assets and liabilities that are measured at fair value and have fixed interest rates are subject to fair value interest rate risk Those financial assets and liabilities 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 has exposure to interest rate risk in respect of its long-term insurance funeral plan business The benefits payable to policyholders 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 funeral plan policies, benefits are linked to the Retail Prices Index (RPI) Assets backing these liabilities are also linked to RPI, and include index-linked gilts and corporate bonds 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 cash flows for these assets and liabilities and making appropriate adjustments to its investment portfolio

4 Financial risk and capital management (continued)

(d) Credit risk

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

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

The carrying amount of financial and reinsurance 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 maintains an approved list of reinsurers

The Group's exposure to reinsurance balances has increased significantly during the year following the catastrophe events in Australia and New Zealand The reinsurance programme has responded well to contain net costs, however, claims continue to evolve and the Board has considered a range of contingent risk management actions to help manage the risk of further adverse development There has been no significant change in the credit quality of the Group's reinsurance balances during the year with substantially all of the Group's reinsurance assets due from reinsurers rated A or above

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

4 Financial risk and capital management (continued)

(e) 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 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

A maturity analysis for those non-derivative financial liabilities that are exposed to interest rate risk is included in part (c) of this note A maturity analysis for other non-derivative financial liabilities is included in note 36 An estimate of the timing of the net cash outflows resulting from insurance contracts is provided in note 31 Derivative financial liabilities of the Group all mature within one year

(f) 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, and
- 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) before the mitigating effect of derivatives are shown below, representing effective diversification of resources

	2011			2010	
	Group	**Parent**		Group	Parent
	£000	**£000**		£000	£000
Aus $	**54,492**	-	Aus $	52,454	-
NZ $	**(44,330)**	-	Can $	35,328	-
Can $	**36,753**	-	Euro	35,306	3,972
Euro	**23,740**	**3,807**	US $	(12,654)	-
US $	**(9,242)**	-	Hong Kong $	10,212	-

(g) 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 or 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

	2011			2010	
	Group	**Parent**		Group	Parent
	£000	**£000**		£000	£000
UK	**209,725**	-	UK	219,958	-
Europe	**22,304**	**3,048**	Europe	25,152	3,421
Hong Kong	**7,259**	-	Hong Kong	9,980	-
Singapore	**5,027**	-	USA	2,929	-
Other	**10,835**	-	Other	16,397	-
Total	**255,150**	**3,048**	**Total**	274,416	3,421

4 Financial risk and capital management (continued)

(h) Market risk sensitivity analysis

The sensitivity of profit and other equity 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 2011	2010	Potential increase/ (decrease) in other equity reserves 2011	2010
		£000	£000	**£000**	£000
Group					
Interest rate risk	-100 basis points	**8,757**	8,274	**27**	164
	+100 basis points	**(9,576)**	(8,026)	**(24)**	(158)
Currency risk	-5%	**(526)**	1,651	**4,545**	4,794
	+5%	**500**	(1,569)	**(4,318)**	(4,554)
Equity price risk	+/-5%	**9,377**	9,879	**-**	-
Parent					
Interest rate risk	-100 basis points	**-**	-	**-**	-
	+100 basis points	**-**	-	**-**	-
Currency risk	-5%	**147**	151	**-**	-
	+5%	**(140)**	(143)	**-**	-
Equity price risk	+/-5%	**112**	123	**-**	-

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 shareholders, and thus excludes those of with-profit and unit-linked business in the prior year, and
- change in profit is stated net of tax at the standard rate of 26 5% (2010 28%)

(i) 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, and
- 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 and its 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 Both the Group and the regulated entities within it have complied with all externally imposed capital requirements throughout the current and prior year

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 31(b) part (v)

5 Segment information

(a) Operating segments

The Group segments its business activities on the basis of differences in the products and services offered and, for general insurance, the underwriting territory This reflects the management and internal Group reporting structure Group activities that are not reportable operating segments on the basis of size are included within an 'all other segments' category

Changes have been made to segments during the year including the reclassification of Ecclesiastical Underwriting Management Limited from 'United Kingdom and Ireland' to 'other general insurance', which ceased underwriting on 30 September 2010, and the introduction of an 'insurance broking operations' segment, which provides a material income stream to the Group The activities of each operating segment are described below

- **General business**

  United Kingdom and Ireland

  The Group's principal general insurance business operation is in the UK where it operates under the Ecclesiastical and Ansvar brands The Group operates a general insurance Ecclesiastical branch in Ireland

  Australia and New Zealand

  The Group has wholly owned subsidiaries in Australia and New Zealand undertaking general insurance business under the Ansvar brand

  Canada

  The Group operates a general insurance Ecclesiastical branch in Canada

  Other general insurance

  Other operations that are either in run-off or not reportable due to their immateriality, together with central underwriting expenses, are included in this segment This segment now includes the Group holding of a global portfolio of risks through its London Market operation, Ecclesiastical Underwriting Management Limited, and has been reclassified in the current and prior year

- **Long-term business**

  The long-term business segment consists of the Group's funeral plan business

- **Insurance broking operations**

  The Group provides insurance broking activities through its subsidiaries of the group headed by Lycetts Holdings Limited and South Essex Insurance Brokers Limited

- **All other segments**

  This includes the financial and risk advisory services, sale of goods, fund management and other investment activities of the Group that are not reportable operating segments due to their immateriality

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

5 Segment information (continued)

Segment revenue

General business by territory	2011 Gross written premiums £000	2011 Fee and commission income £000	2010 Gross written premiums £000	2010 Fee and commission income £000
United Kingdom and Ireland	**339,792**	**34,709**	341,672	36,431
Australia and New Zealand	**84,811**	**9,239**	96,331	9,477
Canada	**34,219**	**1,286**	29,145	2,085
Other general insurance	**6,890**	**1,077**	14,570	162
Inter-territory eliminations	**(629)**	**(784)**	(7,312)	(3,448)
Total general business	**465,083**	**45,527**	474,406	44,707
Long-term business	**19,122**	**-**	20,402	370
Insurance broking operations	**-**	**19,697**	-	6,347
All other segments	**-**	**10,254**	-	7,908
Total segments revenue	**484,205**	**75,478**	494,808	59,332
Inter-segment eliminations	**-**	**(5,210)**	-	(8,104)
Less long-term business discontinued operations	**-**	**-**	(6,881)	(157)
Group revenue from continuing operations	**484,205**	**70,268**	487,927	51,071

In addition to the above revenues, activities within the 'All other segments' category generated gross other operating income from the sale of goods and services of £1,410,000 (2010 £1,216,000), of which £1,118,000 is made external to the Group (2010 £1,167,000)

Group revenues are not materially concentrated on any single external customer Segmental revenues do not include net investment return, which is reported within revenue in the consolidated income statement

Segment result

General insurance business segmental results comprise the underwriting profit or loss and net investment return earned by each underwriting territory The Group uses the industry standard net combined operating ratio (COR) as a measure of underwriting efficiency The COR expresses the total of net claims costs, commission and expenses as a percentage of net earned premiums

The long-term business and all other segment results consist of the profit or loss before tax measured in accordance with IFRS

2011 General business by territory	*Combined operating ratio*	Underwriting £000	Net investment return £000	Total £000
United Kingdom and Ireland	96 3%	**8,397**	**8**	**8,405**
Australia and New Zealand	138 5%	**(16,926)**	**10,109**	**(6,817)**
Canada	101 4%	**(344)**	**2,241**	**1,897**
Other general insurance		**(7,505)**	**10**	**(7,495)**
Inter-territory eliminations		**248**	**(248)**	**-**
General business segment result	105 4%	**(16,130)**	**12,120**	**(4,010)**
Long-term business result				**721**
Insurance broking operations				**4,647**
All other segments				**(4,365)**
Total segments loss				**(3,007)**
Reconciliation of total segments profit or loss to Group profit or loss				
Non-underwriting and finance costs				**(3,273)**
Amortisation of intangibles on acquisitions				**(1,262)**
Share of profit after tax of associate and joint venture				**547**
Inter-segment eliminations				**(888)**
Loss before tax				**(7,883)**

5 Segment information (continued)

Segment result (continued)

2010				
General business by territory	*Combined operating ratio*	**Underwriting £000**	**Net investment return £000**	**Total £000**
United Kingdom and Ireland	100 2%	(373)	54,514	54,141
Australia and New Zealand	104 6%	(2,188)	6,308	4,120
Canada	101 8%	(347)	1,341	994
Other general insurance		(3,234)	29	(3,205)
Inter-territory eliminations		241	(2,578)	(2,337)
General business segment result	102 0%	(5,901)	59,614	53,713
Long-term business result				(4,449)
Insurance broking operations				2,017
All other segments				2,036
Total segments profit				53,317

Reconciliation of total segments profit or loss to Group profit or loss

Non-underwriting and finance costs	(4,859)
Amortisation of intangibles on acquisitions	(593)
Share of profit after tax of associate	1,100
Inter-segment eliminations	(1,268)
Add back loss before tax from long-term business discontinued operations	2,798
Profit before tax	50,495

Reconciliation of general business net investment return to Group net investment return	**2011 £000**	2010 £000
General business net investment return	**12,120**	59,614
Long-term business net investment return	**10,181**	18,003
All other segments net investment return	**1,237**	5,740
Net investment return attributable to third party unitholders	**-**	17,349
Inter-segment eliminations	**(2,151)**	(2,369)
Less long-term business discontinued operations	**-**	(12,233)
	21,387	86,104

(b) Geographical information

Gross written premiums from external customers and non-current assets, as attributed to individual countries which the Group operates in, are as follows

	2011		2010	
Continuing and discontinued operations	**Gross written premiums £000**	**Non-current assets £000**	Gross written premiums £000	Non-current assets £000
UK	**351,710**	**59,793**	356,942	78,926
Australia	**76,900**	**1,895**	84,381	1,977
Canada	**34,219**	**707**	29,145	679
Other overseas	**21,376**	**-**	24,340	163
	484,205	**62,395**	494,808	81,745

Non-current assets exclude rights arising under insurance contracts, deferred tax assets, pension assets and financial instruments Gross written premiums are allocated based on the country in which the insurance contracts are issued Non-current assets are allocated based on where the assets are located

6 Net insurance premium revenue

Continuing operations	General business £000	Long-term business £000	Total £000
For the year ended 31 December 2011			
Gross written premiums	**465,083**	**19,122**	**484,205**
Outward reinsurance premiums	**(172,679)**	**-**	**(172,679)**
Net written premiums	**292,404**	**19,122**	**311,526**
Change in the gross provision for unearned premiums	**15,239**	**-**	**15,239**
Change in the provision for unearned premiums, reinsurers' share	**(9,342)**	**-**	**(9,342)**
Change in the net provision for unearned premiums	**5,897**	**-**	**5,897**
Earned premiums, net of reinsurance	**298,301**	**19,122**	**317,423**
For the year ended 31 December 2010			
Gross written premiums	474,406	13,521	487,927
Outward reinsurance premiums	(171,083)	-	(171,083)
Net written premiums	303,323	13,521	316,844
Change in the gross provision for unearned premiums	(12,354)	-	(12,354)
Change in the provision for unearned premiums, reinsurers' share	(1,952)	-	(1,952)
Change in the net provision for unearned premiums	(14,306)	-	(14,306)
Earned premiums, net of reinsurance	289,017	13,521	302,538

Discontinued operations

Gross written premiums and outward reinsurance premiums of discontinued operations are disclosed in note 17

7 Net investment return

	2011 £000	2010 £000
Income from financial assets at fair value through profit or loss		
- equity income	**8,601**	16,991
- debt income	**24,618**	30,975
Income from financial assets not at fair value through profit or loss		
- interest income on mortgages and other loans	**505**	867
- cash and cash equivalents income, net of exchange movements	**2,769**	1,768
- other income received	**2,103**	2,165
Other income		
- rental income	**1,660**	1,669
Investment income	**40,256**	54,435
Fair value movements on financial instruments at fair value through profit or loss	**(19,395)**	43,736
Fair value movements on investment property	**526**	166
Net investment return	**21,387**	98,337
Less discontinued operations	**-**	(12,233)
Net investment return of continuing operations	**21,387**	86,104

Included within cash and cash equivalents income are exchange gains of £963,000 (2010 £587,000 gains)

Included within fair value movements on financial instruments at fair value through profit or loss are £3,454,000 losses (2010 £2,961,000 losses) in respect of derivatives classified as held for trading

8 Claims and change in insurance liabilities and reinsurance recoveries

Continuing operations	General business £000	Long-term business £000	Total £000
For the year ended 31 December 2011			
Gross claims paid	**345,849**	**5,505**	**351,354**
Gross change in the provision for claims	**275,683**	**99**	**275,782**
Gross change in long-term business provisions	**-**	**21,051**	**21,051**
Claims and change in insurance liabilities	**621,532**	**26,655**	**648,187**
Reinsurers' share of claims paid	**(164,015)**	**-**	**(164,015)**
Reinsurers' share of change in the provision for claims	**(260,837)**	**-**	**(260,837)**
Reinsurance recoveries	**(424,852)**	**-**	**(424,852)**
Claims and change in insurance liabilities, net of reinsurance	**196,680**	**26,655**	**223,335**
For the year ended 31 December 2010			
Gross claims paid	232,562	4,267	236,829
Gross change in the provision for claims	123,884	29	123,913
Gross change in long-term business provisions	-	13,731	13,731
Claims and change in insurance liabilities	356,446	18,027	374,473
Reinsurers' share of claims paid	(80,491)	-	(80,491)
Reinsurers' share of change in the provision for claims	(82,907)	-	(82,907)
Reinsurance recoveries	(163,398)	-	(163,398)
Claims and change in insurance liabilities, net of reinsurance	193,048	18,027	211,075

Discontinued operations
Claims and change in insurance liabilities and reinsurance recoveries arising on discontinued operations are disclosed in note 17

9 Fees, commissions and other acquisition costs	**2011 £000**	2010 £000
Fees paid	**491**	446
Commission paid	**70,200**	67,864
Change in deferred acquisition costs	**5,555**	(2,561)
Other acquisition costs	**35,978**	30,769
Less discontinued operations	**-**	(1,358)
Fees, commissions and other acquisition costs of continuing operations	**112,224**	95,160

10 (Loss)/profit for the year	2011	2010
	£000	£000
(Loss)/profit for the year has been arrived at after (crediting)/charging		
Net foreign exchange gains	**(963)**	(587)
Depreciation of property, plant and equipment	**2,406**	2,490
Loss on disposal of property, plant and equipment	**85**	356
Amortisation of intangible assets	**2,800**	2,050
Increase in fair value of investment property	**(526)**	(166)
Employee benefits expense	**71,866**	60,707
Operating lease rentals	**3,502**	3,141

11 Auditor's remuneration	2011	2010
	£000	£000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**6**	2
Fees payable to the Company's auditor and its associates for other services		
The audit of the Company's subsidiaries, pursuant to legislation	**482**	478
	488	480
Other services pursuant to legislation	**118**	131
Tax services	**10**	14
Corporate finance services	**-**	216
All other services	**13**	132
Total auditor's remuneration	**629**	973

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

Fees payable to the Company's auditor in respect of the audit of the Group's associated pension schemes amounted to £17,000 (2010 £17,000)

12 Employee information

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

	2011			2010		
	General business No	**Long-term business No**	**Other No**	General business No	Long-term business No	Other No
Group						
United Kingdom	**767**	**11**	**265**	743	31	111
Australia and New Zealand	**175**	**-**	**-**	174	-	-
Canada	**56**	**-**	**-**	58	-	-
Ireland	**31**	**-**	**-**	24	-	-
	1,029	**11**	**265**	999	31	111

* Prior year figures have been restated to reflect the headcount supporting Ecclesiastical Investment Management Limited (2011 20, 2010 17) being included in 'Other', rather than 'General business', to better reflect the nature of its activities

12 Employee information (continued)

	2011	2010
	£000	£000
Wages and salaries	58,863	48,278
Social security costs	4,842	3,529
Pension costs - defined contribution plans	2,625	2,239
Pension costs - defined benefit plans	1,165	3,846
Other post-employment benefits	4,371	2,815
	71,866	60,707

The above figures include termination benefits of £975,000 (2010 £1,019,000)

The Company has no employees (2010 nil)

13 Remuneration of key management personnel

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

	2011	2010
	£000	£000
Salaries and other short-term employee benefits	1,256	1,530
Long-term cash incentive	57	55
Post-employment benefits	84	84
	1,397	1,669

Post-employment benefits includes £78,640 (2010 £78,046) in respect of contributions to a defined contribution scheme

One director who was employed by Ecclesiastical Insurance Office plc was a member of the Group's defined benefit pension scheme during the year (2010 two directors) Two directors (2010 two) were members of the Group's defined contribution scheme during the year

		2011	2010
		£000	£000
Highest paid director	- emoluments	395	482
	- money purchase pension contributions	45	47
Chairman's fees		68	68

14 Finance costs

	2011	2010
	£000	£000
Interest expense		
- finance leases	163	125
- other interest paid	753	807
Debt extinguishment costs	1,800	-
Less discontinued operations	-	(24)
Finance costs of continuing operations	2,716	908

15 Associate undertaking and joint venture

(i) Associate undertaking

On 27 April 2011 the Group acquired an additional 6 4% in its associate undertaking Lycetts Holdings Limited, increasing its ownership to 55 0% and so obtaining control of the entity See note 19 for further details of the business combination The resulting treatment of derecognising the investment in associate is as follows

	2011 £000	2010 £000
Group		
At 1 January	**21,764**	17,525
Acquired during the year	**-**	3,403
Share of profit after tax for the period	**362**	1,100
Dividends received	**(336)**	(264)
Fair value gain (see note 19)	**1,121**	-
Derecognition on step acquisition	**(22,911)**	-
At 31 December	**-**	21,764

The Group's investment in associate at 31 December 2011 includes goodwill of £nil (2010 £18,690,000)

The Group's interest in Lycetts Holdings Limited, an unlisted company incorporated in the United Kingdom, over the period accounted for as an associate is as follows

Group's share of	Period to 27 April 2011 £000	Year ended ended 31 December 2010 £000
Revenue	**3,043**	7,481
Profit after tax for the period	**362**	1,100
Share of assets	**n/a**	10,803
Share of liabilities	**n/a**	(7,729)
Share of net assets of associate	**n/a**	3,074

Parent

Included on the Parent statement of financial position is £23,005,000 (2010 £20,248,000) in respect of the investment in Lycetts Holdings Limited at cost

(ii) Joint venture

Lycetts Holdings Limited has a 40% shareholding in its joint venture Amlin Plus Limited, an insurance services company, shown below as an acquisition during the year

The Group's interest in Amlin Plus Limited, an unlisted company incorporated in the United Kingdom, is as follows

Group	2011 £000
At 1 January	**-**
Acquired during the year	**368**
Share of profit after tax for the period	**185**
At 31 December	**553**
Group's share of	
Revenue	**622**
Profit after tax for the period	**185**
Share of assets	**1,712**
Share of liabilities	**(1,159)**
Share of net assets of joint venture	**553**

16 Tax (credit)/expense		**2011**	2010
		£000	£000
Current tax	- current year	**2,701**	9,663
	- prior years	**63**	481
Deferred tax	- temporary differences	**(4,369)**	4,093
	- reduction in tax rate	**(3,120)**	(1,426)
Total tax (credit)/expense		**(4,725)**	12,811
Less tax credit of discontinued operations		**-**	517
Tax (credit)/expense of continuing operations		**(4,725)**	13,328

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

	2011	2010
	£000	£000
(Loss)/profit before tax (continuing operations)	**(7,883)**	50,495
Loss before tax (discontinued operations)	**-**	(2,798)
Total pre-tax (loss)/profit	**(7,883)**	47,697
Tax calculated at the UK standard rate of tax of 26 5% (2010 28%)	**(2,089)**	13,355
Factors affecting (credit)/charge for the year		
Expenses not deductible for tax purposes	**805**	494
Non-taxable franked investment income	**(3,287)**	(3,628)
Life insurance and other tax paid at non-standard rates	**961**	3,248
Tax losses for which no deferred income tax asset was recognised	**1,942**	206
Impact of reduction in deferred tax rate	**(3,120)**	(1,426)
Other items	**-**	81
Adjustments to tax charge in respect of prior periods	**63**	481
Total tax (credit)/expense	**(4,725)**	12,811

A deferred tax credit on fair value movements on owner-occupied property of £47,000 (2010 £56,000 charge) and tax relief on charitable grants of £2,716,000 (2010 £5,390,000) are taken directly to equity

A change in the UK standard rate of corporation tax from 28% to 26% became effective from 1 April 2011 Where appropriate, current tax has been provided at the blended rate of 26 5% A 1% reduction in the rate of corporation tax, effective from 1 April 2012, was substantively enacted on 5 July 2011 and, as such, deferred tax has been provided for at 25% (2010 27%) The Budget announcement on 21 March 2012 to further reduce the rate of corporation tax to 24% effective from 1 April 2012 and planned reductions of 1% per annum over two years (such that the standard rate reaches 22% from April 2014) were not substantively enacted at the balance sheet date Had they been substantively enacted the deferred tax liability at the year end would have been reduced by £4,302,000

17 Prior year discontinued operations

During the prior year, the Group entered into a transfer agreement in order to sell its life business excluding its funeral plan related business to Homeowners Friendly Society Limited (trading as Engage Mutual) The disposal was effected in order to reduce the Group's exposure to the risks and volatility associated with the life business The disposal was completed on 30 November 2010 by way of an insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000

The results and cash flows of the discontinued operations, which have been included in the consolidated income statement and consolidated statement of cash flows respectively, were as follows

	11 months ended November 2010 £000
Gross written premiums	6,881
Outward reinsurance premiums	(101,929)
Other revenue	12,390
Total revenue	(82,658)
Claims and change in insurance liabilities	(8,063)
Reinsurance recoveries	95,599
Other expenses	(6,736)
Total expenses	80,800
Loss before tax	(1,858)
Attributable tax	1,319
Loss on disposal of discontinued operations, net of selling costs	(940)
Attributable tax	(802)
Net loss attributable to discontinued operations	(2,281)
Net cash used by operating activities	(7,474)
Net cash from investing activities	5,799
Net cash from financing activities	-

The non-profit fund discontinued operations were 100% reinsured with effect from 1 January 2010 until 30 November 2010 in order to transfer the risks and rewards in the reinsured business to the purchaser in preparation for the sale The reinsurance agreement resulted in the inclusion of £101 4 million outward reinsurance premiums, and a £98 4 million increase in reinsurance recoveries The net difference between these items is due to movements in gross insurance reserves

The business disposed of formed part of the long-term business operating segment

18 Appropriations	**2011 £000**	2010 £000
Charitable grants		
Gross charitable grants to the ultimate parent company, Allchurches Trust Limited	**10,250**	19,250
Tax relief	**(2,716)**	(5,390)
Net appropriation for the year	**7,534**	13,860

19 Acquisition of subsidiary

At 1 January 2011 the Parent owned 48 6% of Lycetts Holding Limited (hereafter referred to as Lycetts), a holding company of a group whose primary activity is insurance brokerage business On 27 April 2011 the Parent obtained control of Lycetts by acquiring a further 6 4% of the issued ordinary share capital in the company, increasing the equity interest to 55 0% The effect of this transaction was to change the treatment of the holding from that of being an investment in associate to that of a subsidiary (see note 15) The purpose of the business combination is to diversify the portfolio of the Group and benefit from Lycetts' expertise in rural, specialist commercial and bloodstock lines of business

The following summarises the consideration for Lycetts and the amounts of the assets acquired and liabilities recognised at the acquisition date and the fair value at the acquisition date of the non-controlling interest in Lycetts

	£000
Consideration	
Cash	2,384
Fair value of previously-held interest	22,911
Total consideration	25,295
Non-controlling interest	21,214
Fair value of subsidiary	46,509
Fair value of net assets acquired	(13,985)
Goodwill	**32,524**
Identifiable assets acquired and liabilities assumed	
Intangible assets	11,643
Computer software	113
Property, plant and equipment	941
Investment in joint venture	368
Other debtors	10,251
Financial investments	13
Cash and cash equivalents	10,787
Other liabilities	(20,094)
Deferred tax	(37)
Fair value of net assets acquired	**13,985**
Net cash flow arising on acquisition	
Cash consideration	(2,384)
Cash and cash equivalents acquired	10,787
Cash inflow on acquisition	**8,403**

The fair value of debtors is £10,251,000 and includes trade debtors with a fair value and gross contractual amount of £9,146,000, all of which is expected to be collectable

Lycetts operates several pension schemes whose assets are held separately from those of the Group in independently administered pension funds (see note 22)

On acquisition, the Lycetts defined benefit pension scheme had a surplus of £1,777,000 The Group is not able to recover this surplus either through reduced future contributions or through refunds from the scheme and as a result has not recognised the surplus as an asset at acquisition

The fair value of the acquired identifiable intangible assets of £11,643,000 consists of the value of the brand and customer and distribution relationships

19 Acquisition of subsidiary (continued)

The Group has chosen to measure the non-controlling interest in Lycetts at fair value that was estimated by applying a discounted earnings approach The fair value estimates are based on

(a) an assumed discount rate at the weighted average cost of capital used by the Group, and

(b) a terminal value, calculated based on a long-term sustainable growth rate suitable for the market and type of business

The Group recognised a gain of £1,121,000 as a result of re-measuring at fair value its 48 6% equity interest in Lycetts held before the business combination The gain is included in the Group's income statement for the year ended 31 December 2011

The fair value of the previously-held interest is disclosed in note 15

The goodwill arising on the acquisition is attributable to intangibles not qualifying for separate recognition, such as the workforce, synergies, future market development and revenue growth None of the goodwill recognised is expected to be deductible for income tax purposes

No material acquisition-related costs were incurred in relation to the transaction

Lycetts contributed £13,162,000 to group revenues and £2,682,000 of profit to the Group's result before tax for the period from the date of acquisition to 31 December 2011 If the acquisition had occurred on 1 January 2011, the consolidated revenue would have been £416,295,000 and consolidated loss after tax for the year would have been £3,323,000

Acquisition of additional interest in Lycetts Holdings Limited

On 31 August 2011, the Parent acquired an additional 1 2% of the issued ordinary share capital of Lycetts, increasing its ownership interest to 56 2% A cash consideration of £373,000 was paid to the non-controlling interest shareholders The carrying value of the net assets of Lycetts at the acquisition date was £47,119,000, and the carrying value of the additional interest acquired was £573,000 The difference of £200,000 between the consideration and the carrying value of the interest acquired has been credited in retained earnings within equity

20 Goodwill and other intangible assets

Group	Goodwill £000	Computer software £000	Other intangible assets £000	Total £000
Cost				
At 1 January 2011	**19,387**	**21,060**	**3,918**	**44,365**
Additions	**-**	**1,533**	**-**	**1,533**
Acquisition of subsidiary	**32,524**	**113**	**11,643**	**44,280**
Exchange differences	**-**	**(2)**	**-**	**(2)**
Disposals	**-**	**(734)**	**-**	**(734)**
At 31 December 2011	**51,911**	**21,970**	**15,561**	**89,442**
Amortisation				
At 1 January 2011	**-**	**16,719**	**1,723**	**18,442**
Charge for the year	**-**	**1,538**	**1,262**	**2,800**
Exchange differences	**-**	**2**	**-**	**2**
Disposals	**-**	**(734)**	**-**	**(734)**
At 31 December 2011	**-**	**17,525**	**2,985**	**20,510**
Net book value at 31 December 2011	**51,911**	**4,445**	**12,576**	**68,932**
Cost				
At 1 January 2010	19,387	19,153	3,918	42,458
Additions	-	1,467	-	1,467
Exchange differences	-	440	-	440
At 31 December 2010	19,387	21,060	3,918	44,365
Amortisation				
At 1 January 2010	-	14,907	1,130	16,037
Charge for the year	-	1,457	593	2,050
Exchange differences	-	355	-	355
At 31 December 2010	-	16,719	1,723	18,442
Net book value at 31 December 2010	19,387	4,341	2,195	25,923

£32,524,000 of the goodwill balance in the current year relates to the acquisition of Lycetts Holdings Limited (see note 19) £16,885,000 of the goodwill balance in the current and prior year relates to the acquisition of South Essex Insurance Holdings Limited during 2008 The recoverable amount, determined on a value-in-use basis indicates no impairment has arisen The calculation uses discounted cash flow projections based on management approved business plans covering a five-year period, with forecast cash flows in the fifth year continuing thereafter at a constant growth rate in perpetuity

Assumptions used are consistent with historical experience within the business acquired and external sources of information, and discounting is at the Group's long-term targeted return on capital

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

21 Deferred acquisition costs	2011	2010
	£000	£000
Group		
At 1 January	**41,482**	38,298
Increase in the period	**35,795**	40,500
Release in the period	**(41,350)**	(37,939)
Disposal of business	**-**	(861)
Exchange differences	**(139)**	1,484
At 31 December	**35,788**	41,482
Current	**35,788**	41,474
Non-current	**-**	8

22 Pension asset and retirement benefit obligations

Defined benefit pension plans

The Group's main scheme is a defined benefit scheme for UK employees On 1 January 2011, Ecclesiastical Insurance Office plc became the sponsoring employer for the Ansvar Staff Pension Fund, previously operated by the subsidiary Ansvar Insurance Company Limited On that date, all the assets, liabilities, members and beneficiaries of the fund were transferred to the Ecclesiastical Insurance Office plc Staff Retirement Benefit Fund With effect from 1 August 2011, the terms of the scheme for future service changed from a non-contributory final salary scheme to a contributory scheme in which benefits are based on career average revalued earnings

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 2010 Pension liabilities for the 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 2011 for IAS 19 purposes

The valuation of the scheme includes allowance for the government's change in statutory inflation measure for UK occupational pension schemes from the Retail Price Index (RPI) to the Consumer Price Index (CPI) This change affects revaluation in deferment for members of the Ecclesiastical Insurance Office (EIO) Section Members of the Ansvar Section are unaffected This change has reduced the liabilities of the EIO Section by approximately £2 5 million, which has been treated as an actuarial gain

As mentioned in note 19, Lycetts Holdings Limited also operates a defined benefit pension scheme, the surplus of which was not recognised as an asset on acquisition At the year end the pension fund had moved into a net liability of £418,000, but on applying the corridor approach the recognition of £156,000 actuarial loss in the income statement still leaves the position as a surplus This surplus does not qualify for recognition so the actuarial loss is derecognised by crediting to reserves

All Group defined benefit schemes are now closed to new entrants The Group operates a number of defined contribution pension schemes, for which contributions by the Group are disclosed in note 12

22 Pension asset and retirement benefit obligations (continued)

	2011	2010
Group	£000	£000
The amounts recognised in the statement of financial position are determined as follows		
Present value of funded obligations	(215,292)	(213,740)
Fair value of plan assets	250,101	237,440
	34,809	23,700
Unrecognised actuarial (gains)/losses in EIO pension scheme	(1,514)	6,485
Derecognition of Lycetts pension scheme	418	-
Net asset in the statement of financial position	33,713	30,185
Movements in the net asset recognised in the statement of financial position are as follows		
At 1 January	30,185	27,495
Exchange differences	(35)	(27)
Total expense charged in the income statement	(1,165)	(3,846)
Contributions paid	4,825	6,563
Effect of irrecoverability of surplus in Lycetts pension scheme	(97)	-
At 31 December	33,713	30,185

	2011	2010
	£000	£000
The amounts recognised in the income statement are as follows		
Current service cost	5,613	6,405
Interest cost	12,003	10,856
Expected return on plan assets	(16,732)	(13,733)
Net actuarial losses/(gains) recognised during the year	142	(6)
Past service cost	139	324
Total included in employee benefits expense	1,165	3,846

The actual return on pension plan assets was a loss of £2,774,000 (2010 £30,844,000 gain)

The principal actuarial assumptions (expressed as weighted averages) were as follows

	2011	2010
Discount rate	5 00%	5 40%
Inflation (RPI)	3 10%	3 50%
Inflation (CPI)	2 30%	n/a
Expected return on plan assets	6 70%	6 70%
Future salary increases	4 50%	5 00%
Future increase in pensions in deferment	2 30%	3 50%
Future pension increases (linked to RPI)	3 10%	3 50%
Future pension increases (linked to CPI)	2 30%	n/a

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 year end date Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets

22 Pension asset and retirement benefit obligations (continued)

Mortality rate

The average life expectancy in years of a pensioner retiring at age 65, at the year end date (expressed as weighted averages), is as follows

	2011	2010
Male	**23 8**	24 0
Female	**26 0**	26 4

The average life expectancy in years of a pensioner retiring at age 65, 20 years after the year end date (expressed as weighted averages), is as follows

	2011	2010
Male	**26 1**	26 0
Female	**28 3**	28 3

Plan assets are as follows	2011 £000	2010 £000
Equities	**134,921**	142,293
Bonds	**81,290**	77,680
Cash	**17,034**	5,145
Other	**16,856**	12,322
	250,101	237,440

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

	2011 £000	2010 £000
Scheme assets		
As at 1 January	**237,440**	205,628
Lycetts pension scheme at acquisition	**16,341**	-
Pension benefits paid and payable	**(5,644)**	(5,501)
Contributions paid	**4,825**	6,563
Expected return on scheme assets	**16,732**	13,733
Actuarial (losses)/gains	**(19,506)**	17,111
Exchange differences	**(87)**	(94)
As at 31 December	**250,101**	237,440
Defined benefit obligation		
As at 1 January	**213,740**	190,985
Lycetts pension scheme at acquisition	**14,564**	-
Current service cost	**5,613**	6,405
Past service cost	**139**	324
Pension benefits paid and payable	**(5,644)**	(5,501)
Interest cost	**12,003**	10,856
Actuarial (gains)/losses	**(25,014)**	10,795
Exchange differences	**(109)**	(124)
As at 31 December	**215,292**	213,740

22 Pension asset and retirement benefit obligations (continued)

History of Group experience gains and losses	**2011 £000**	2010 £000	2009 £000	2008 £000	2007 £000
Present value of defined benefit obligations	**(215,292)**	(213,740)	(190,985)	(143,282)	(164,458)
Fair value of scheme assets	**250,101**	237,440	205,628	170,374	189,880
Surplus	**34,809**	23,700	14,643	27,092	25,422
Experience adjustments on scheme liabilities	**6,656**	3,046	(516)	3,417	7,379
Experience adjustments on scheme assets	**(19,506)**	17,111	24,723	(35,820)	3,471

The contribution expected to be paid by the Group during the year ending 31 December 2012 is £4 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 statement of financial position are determined as follows	**2011 £000**	2010 £000
Present value of unfunded obligations and net obligations in the statement of financial position	**12,760**	8,652
Movements in the net obligations recognised in the statement of financial position are as follows		
At 1 January	**8,652**	6,115
Total expense in the income statement	**4,371**	2,815
Benefits paid	**(263)**	(278)
At 31 December	**12,760**	8,652
The amounts recognised in the income statement are as follows		
Current service cost	**107**	-
Interest cost	**484**	349
Net actuarial losses recognised during the year	**3,780**	1,758
Past service cost	**-**	708
Total expense in employee benefits expense	**4,371**	2,815

The main actuarial assumption is a long-term increase in medical costs of 12 0% (2010 12 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	201	(153)
Effect on the medical benefit obligation	3,087	(2,372)

23 Property, plant and equipment

Group	Land and buildings £000	Motor vehicles £000	Furniture, fittings and equipment £000	Computer equipment £000	Total £000
Cost or valuation					
At 1 January 2011	**3,634**	**2,776**	**6,405**	**8,045**	**20,860**
Additions	**(475)**	**747**	**(8)**	**854**	**1,118**
Acquisition of subsidiary	**950**	**24**	**552**	**469**	**1,995**
Exchange differences	**5**	**-**	**(1)**	**13**	**17**
Disposals	**-**	**(487)**	**(151)**	**(1,077)**	**(1,715)**
Revaluation	**40**	**-**	**-**	**-**	**40**
At 31 December 2011	**4,154**	**3,060**	**6,797**	**8,304**	**22,315**
Depreciation					
At 1 January 2011	**-**	**849**	**4,532**	**6,062**	**11,443**
Charge for the year	**-**	**521**	**699**	**1,186**	**2,406**
Exchange differences	**-**	**-**	**(1)**	**12**	**11**
Disposals	**-**	**(304)**	**(151)**	**(1,077)**	**(1,532)**
At 31 December 2011	**-**	**1,066**	**5,079**	**6,183**	**12,328**
Net book value at 31 December 2011	**4,154**	**1,994**	**1,718**	**2,121**	**9,987**
Cost or valuation					
At 1 January 2010	3,576	2,711	6,386	7,209	19,882
Additions	-	929	529	878	2,336
Exchange differences	83	-	238	332	653
Disposals	-	(864)	(748)	(374)	(1,986)
Revaluation	(25)	-	-	-	(25)
At 31 December 2010	3,634	2,776	6,405	8,045	20,860
Depreciation					
At 1 January 2010	-	910	4,111	4,928	9,949
Charge for the year	-	478	758	1,254	2,490
Exchange differences	-	-	126	229	355
Disposals	-	(539)	(463)	(349)	(1,351)
At 31 December 2010	-	849	4,532	6,062	11,443
Net book value at 31 December 2010	3,634	1,927	1,873	1,983	9,417

Certain properties, held as investment properties by subsidiary undertakings but occupied by the Group, were revalued at 31 December 2011 All others were revalued at 31 December 2009 Valuations were carried out by Cluttons, an external firm of Chartered Surveyors, and were made on the basis of open market value Revaluation movements net of applicable deferred taxes are taken to the revaluation reserve in shareholders' equity Revaluation movements relating to individual properties for which the current market value is below original cost are recognised within net investment return in the income statement

The value of land and buildings on a historical cost basis is £3,703,000 (2010 £3,048,000)

Depreciation expense has been charged in other operating and administrative expenses

Included within net book value of motor vehicles is £1,772,000 (2010 £1,723,000) and within net book value of computer equipment is £55,000 (2010 £nil) in respect of assets held under finance leases

24 Investment property

	2011 £000	2010 £000
Group		
Net book value at 1 January	**24,641**	24,732
Additions	**3,133**	1,956
Disposals	**(827)**	(2,213)
Fair value gains	**526**	166
Net book value at 31 December	**27,473**	24,641

The Group's investment properties were last revalued at 31 December 2011 by Cluttons, an external firm of Chartered Surveyors Valuations were made on the basis of open market value

Investment properties are held for long-term capital appreciation rather than short-term sale Rental income arising from the investment properties owned by the Group amounted to £1,660,000 (2010 £1,669,000) and is included in net investment return Other operating and administrative expenses include £731,000 (2010 £512,000) relating to investment property

25 Financial investments

Financial investments summarised by measurement category are as follows	2011 Group £000	2011 Parent £000	2010 Group £000	2010 Parent £000
Financial investments at fair value through profit or loss				
Equity securities				
- listed	**234,877**	-	251,852	-
- unlisted	**20,273**	**3,048**	22,564	3,421
Debt securities				
- government bonds	**258,147**	-	337,975	-
- listed	**306,041**	-	212,231	-
- unlisted	**226**	-	285	-
Derivative financial instruments				
- options	**2,298**	-	-	-
	821,862	**3,048**	824,907	3,421
Loans and receivables				
Loans secured by mortgages	**11,097**	-	12,657	-
Other loans	**20**	-	20	-
	11,117	-	12,677	-
Parent investments in subsidiary undertakings				
Shares in subsidiary undertakings				
- listed	-	**5,979**	-	5,979
- unlisted	-	**28,605**	-	5,600
	-	**34,584**	-	11,579
Total financial investments	**832,979**	**37,632**	837,584	15,000

Derivative financial instruments are classified as held for trading and their maturity is disclosed in note 26

All other financial investments are non-current, with the exception of those debt securities maturing within one year, disclosed in note 4(c) Equity and debt securities are designated by the Group to be measured at fair value through profit or loss The directors consider that the carrying value of loans and receivables approximates to their fair value An analysis of financial investments by IAS 39 measurement category is given in note 4(a)

26 Derivative financial instruments

The Group utilises non-hedge derivatives to mitigate equity price risk arising from investments held at fair value and foreign exchange risk arising from claims payable in foreign currency

	2011			2010		
Group	**Contract/ notional amount £000**	**Fair value asset £000**	**Fair value liability £000**	Contract/ notional amount £000	Fair value asset £000	Fair value liability £000
Equity/Index contracts						
Futures	92,680	-	(1,432)	-	-	-
Foreign exchange contracts						
Options	50,000	2,298	-	-	-	-
Totals at 31 December	142,680	2,298	(1,432)	-	-	-
Current	117,680	951	(1,432)	-	-	-
Non-current	25,000	1,347	-	-	-	-

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 financial investments (note 25) and derivative fair value liabilities are recognised within other liabilities (note 36)

Amounts pledged as collateral in respect of derivative contracts are disclosed in note 28

27 Other assets

	2011		2010	
	Group	**Parent**	Group	Parent
Receivables arising from insurance and reinsurance contracts	**£000**	**£000**	£000	£000
- due from contract holders	32,003	-	26,985	-
- due from agents, brokers and intermediaries	52,023	-	66,756	-
- due from reinsurers	16,912	-	10,434	-
Other receivables				
- accrued interest and rent	7,467	-	7,243	-
- other prepayments and accrued income	3,976	302	3,320	-
- amounts owed by related parties	409	728	492	924
- other debtors	25,034	-	13,733	166
	137,824	1,030	128,963	1,090

Other assets are all current The above carrying amounts are a reasonable approximation of fair value

27 Other assets (continued)

The Group has recognised a credit of £3,182,000 (2010 credit of £265,000) in other operating and administrative expenses in the income statement reflecting an updated assessment of the level of impairment of its trade and other receivables during the year

There has been no significant change in the credit quality of the Group's trade receivables, 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

	2011	2010
	£000	£000
Balance at 1 January	**4,056**	4,368
Movement in the year	**(3,389)**	(312)
Balance at 31 December	**667**	4,056

The Group allowance for doubtful debts includes a provision of £650,000 (2010 £656,000) 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 trade receivables of the Group is £6,558,000 (2010 £4,508,000) overdue but not impaired, of which £5,497,000 (2010 £3,766,000) is not more than three months overdue at the reporting date

28 Cash and cash equivalents	**2011**		2010	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
Cash at bank and in hand	**67,445**	**2,920**	67,802	1,912
Short-term bank deposits	**106,669**	**-**	102,464	-
	174,114	**2,920**	170,266	1,912

Included within short-term bank deposits of the Group are cash deposits of £8,912,000 (2010 £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

29 Called up share capital	**2011**	2010
	£000	£000
Issued, allotted and fully paid		
Ordinary share capital		
20,000,000 shares of £1 each	**20,000**	20,000

Ordinary shares in issue in the Company rank pari passu and carry equal voting rights On winding up, the residual interest in the assets of the Company after deducting all liabilities belongs to the Ordinary shareholders

30 Non-controlling interests

Non-controlling interests are comprised of the 8 625% Non-cumulative Irredeemable Preference shares (NcIPs) in Ecclesiastical Insurance Office plc and the Lycetts non-controlling interest (see note 19)

	Lycetts	**NcIPs**
	£000	**£000**
At 1 January 2011	**-**	**100,453**
Acquisition of subsidiary	**21,214**	**-**
Purchase of further 1 2% share of subsidiary	**(573)**	**-**
Subsidiary profit attributable to non-controlling interest	**542**	**-**
Balance at 31 December 2011	**21,183**	**100,453**

31 Insurance liabilities and reinsurance assets

	2011	2010
Group	**£000**	£000
Gross		
Claims outstanding	**946,824**	668,091
Unearned premiums	**221,087**	236,555
Long-term business provision	**81,714**	60,663
Total gross insurance liabilities	**1,249,625**	965,309
Recoverable from reinsurers		
Claims outstanding	**482,166**	217,950
Unearned premiums	**58,884**	68,244
Total reinsurers' share of insurance liabilities	**541,050**	286,194
Net		
Claims outstanding	**464,658**	450,141
Unearned premiums	**162,203**	168,311
Long-term business provision	**81,714**	60,663
Total net insurance liabilities	**708,575**	679,115
Gross insurance liabilities		
Current	**611,660**	474,131
Non-current	**637,965**	491,178
Reinsurance assets		
Current	**307,992**	183,746
Non-current	**233,058**	102,448

(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 uncertainty margins

To reflect the uncertain nature of the outcome of the ultimate settlement cost of claims an uncertainty margin is added to the best estimate The addition for uncertainty 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

31 Insurance liabilities and reinsurance assets (continued)

(iii) Calculation of 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

(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

		2011		2010	
		Gross	**Net**	Gross	Net
		£000	**£000**	£000	£000
Liability	- UK	**23,200**	**21,100**	20,500	18,200
	- Overseas	**10,300**	**9,500**	9,600	9,100
Property	- UK	**6,300**	**4,000**	8,300	5,100
	- Overseas	**44,600**	**22,800**	19,300	4,900
Motor	- UK	**2,700**	**2,100**	2,900	2,300
	- Overseas	**300**	**100**	300	100

Ecclesiastical Insurance Group plc

Notes to the Financial Statements

31 Insurance liabilities and reinsurance assets (continued)

(vii) Claims development tables

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

Group

Estimate of gross ultimate claims

	2002 £000	2003 £000	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	Total £000
At end of year	37,794	42 800	42,503	46 155	45,688	50,840	56,420	74,742	84,476	82,095	
One year later	35 255	38 919	40 075	32 998	45,900	47,307	53 552	59,807	75,550		
Two years later	33,978	36,741	35,645	35,001	40 092	43 270	47,643	55,250			
Three years later	29,817	33,859	33,431	30,365	36,168	35,510	44,658				
Four years later	26,322	32,361	31,870	26,835	30,791	35,556					
Five years later	25,183	32,517	25 912	25,860	28,470						
Six years later	27,319	31 855	25,713	25,893							
Seven years later	27,654	32,067	25,685								
Eight years later	28,998	32,422									
Nine years later	28 644										
Current estimate of ultimate claims	28,644	32 422	25,685	25,893	28,470	35,556	44,658	55,250	75,550	82,095	434,223
Cumulative payments to date	(25,173)	(29,502)	(21,539)	(19,904)	(20 156)	(20,353)	(17 603)	(14 343)	(8,289)	(1 457)	(178,319)
Outstanding liability	3 471	2 920	4,146	5,989	8,314	15,203	27 055	40,907	67 261	80,638	255 904
Liability in respect of earlier years											76,131
Total gross liability (for liability classes) included in insurance liabilities in the statement of financial position											332,035

Estimate of net ultimate claims

	2002 £000	2003 £000	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	Total £000
At end of year	34 480	34 483	35,349	39 528	41 007	46,235	51 795	64,476	73,218	75,302	
One year later	29,269	30,253	34,867	32,780	40,976	43 107	48,432	53,700	64,796		
Two years later	26,140	29,791	29,447	31,287	35,783	38,979	44,498	50,805			
Three years later	24,934	28,897	28,486	28,641	33,145	34,180	42,524				
Four years later	21,787	26,142	27,840	25,665	30,283	35,004					
Five years later	20,393	25,018	24,560	25,391	28,230						
Six years later	21,103	23,375	24,482	25,150							
Seven years later	21,378	23,300	24,435								
Eight years later	21,793	23,590									
Nine years later	22,136										
Current estimate of ultimate claims	22,136	23,590	24,435	25,150	28,230	35,004	42,524	50,805	64,796	75,302	391,972
Cumulative payments to date	(18,924)	(20,718)	(20,325)	(19,578)	(19,997)	(20,100)	(17,507)	(12 830)	(8,032)	(1,447)	(159,458)
Outstanding liability	3,212	2,872	4,110	5,572	8,233	14,904	25,017	37,975	56,764	73,855	232,514
Liability in respect of earlier years											70,567
Total net liability (for liability classes) included in insurance liabilities in the statement of financial position											303,081

31 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 Where prudent, an allowance is made for future mortality improvements based on trends identified in population data

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 as follows

	2011 Non-profit	2010 Non-profit
UK and overseas government bonds non-linked	**2 52%**	n/a
UK government index-linked	**-0 92%**	-0 30%
Corporate debt instruments index linked	**-36 00%**	0 17%

The investment return assumption is determined by calculating an overall yield on all cash flows projected to occur from the portfolio of financial assets which are assumed to back the relevant class of liabilities At the end of 2010 a weighted average rate of investment return was derived The change in methodology applies a modification to FSA Rule INSPRU 3 1 35R, which was granted in September 2011 For index-linked assets, the real yield is shown

Funeral plan business 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 this business is £15 40 per annum (2010 £19 00 per annum)

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 78% per annum (2010 3 28%)

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 £5 1 million (2010 £2 6 million increase)

The effect on insurance liabilities of the changes to unit renewal expense assumptions (described in (i) above) was a £0 6 million decrease (2010 £1 1 million increase)

Further improvements to mortality have been introduced for funeral plan business for the first time in 2011 As a result, liabilities have increased by £0 7 million In 2010, an improvement in base mortality assumptions resulted in a £0 8 million increase in liabilities

An increase in projected investment expenses to 0 12% of funds under management (2010 decrease from 0 25% to 0 10%) has increased liabilities by £0 2 million (2010 decreased liabilities by £0 5 million)

(iii) Changes in methodology

The effect of the change to the methodology for calculating the investment return assumption (described in (i) above) would have been to reduce the start of the year liabilities by £0 5 million

A decision has been made to cease paying fund-based commission on some of the funeral plan business The release of reserves to provide for that commission has reduced the start of the year liabilities by £0 7 million

31 Insurance liabilities and reinsurance assets (continued)

(iv) Sensitivity analysis

The sensitivity of the profit or loss 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 the result 2011	2010
Variable		£000	£000
Deterioration in annuitant mortality	-10%	**600**	(300)
Improvement in annuitant mortality	+10%	**(700)**	300
Increase in fixed interest/cash yields	+1%pa	**(400)**	(1,100)
Decrease in fixed interest/cash yields	-1%pa	**300**	1,200
Worsening of base renewal expense level	+10%	**(500)**	(400)
Improvement in base renewal expense level	-10%	**500**	400
Increase in expense inflation	+1%pa	**(500)**	(400)
Decrease in expense inflation	-1%pa	**500**	300

(v) Available capital resources

	Non-profit life fund £000	Share-holders' fund £000	Total life business £000	Other activities £000	Group total £000
2011					
Shareholders' equity	**(6,954)**	**33,184**	**26,230**	**327,392**	**353,622**
Adjustments to assets/liabilities	**15,500**	**(15,500)**	**-**	**(58,243)**	**(58,243)**
Adjustments to actuarial liabilities	**(2,822)**	**-**	**(2,822)**	**-**	**(2,822)**
Total available capital resources	**5,724**	**17,684**	**23,408**	**269,149**	**292,557**
Policyholder liabilities					
- life insurance business	**81,714**	**-**	**81,714**		
Net actuarial liabilities on statement of financial position	**81,714**	**-**	**81,714**		
2010					
Shareholders' equity	(6,746)	33,636	26,890	346,652	373,542
Adjustments to assets/liabilities	12,500	(12,500)	-	(48,635)	(48,635)
Adjustments to actuarial liabilities	(2,822)	-	(2,822)	-	(2,822)
Total available capital resources	2,932	21,136	24,068	298,017	322,085
Policyholder liabilities					
- life insurance business	60,663	-	60,663		
Net actuarial liabilities on statement of financial position	60,663	-	60,663		

31 Insurance liabilities and reinsurance assets (continued)

Shareholders' equity/(deficit) in the non-profit fund represents the net profit or loss generated by this fund not transferred, to date, to the shareholders' fund The life shareholders' fund is the balance of shareholder equity in the life business The adjustments to assets/(liabilities) relate to both assets and liabilities which are not admissible for FSA solvency purposes

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 resources 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 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

(vi) Movements in life capital

	Non-profit life fund £000	Share-holders' fund £000	Total life business £000
2011			
Published capital resources as at 31 December 2010	2,932	21,136	24,068
Effect of new business	(2,065)	-	(2,065)
Variance between actual and expected experience	254	-	254
Effect of changes to valuation process	983	-	983
Effect of changes to valuation interest rates	(221)	-	(221)
Effect of changes to unit renewal expense assumptions	926	-	926
Effect of change to inflation assumption	146	-	146
Effect of changes to mortality assumptions	(722)	-	(722)
Transfers between funds	3,000	(3,000)	-
Other movements	491	(452)	39
Capital resources as at 31 December 2011	5,724	17,684	23,408

Assumptions, and the effect of changes in these assumptions on profit or loss, are covered in sections b(i) to b(iii) of this note

31 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 2011	**668,091**	**(217,950)**	**450,141**
Cash (paid)/received for claims settled in the year	**(351,354)**	**164,015**	**(187,339)**
Change in liabilities/reinsurance assets			
- arising from current year claims	**661,333**	**(431,881)**	**229,452**
- arising from prior year claims	**(34,197)**	**7,029**	**(27,168)**
Exchange differences	**2,951**	**(3,379)**	**(428)**
At 31 December 2011	**946,824**	**(482,166)**	**464,658**
Provision for unearned premiums			
At 1 January 2011	**236,555**	**(68,244)**	**168,311**
Increase in the period	**220,558**	**(58,652)**	**161,906**
Release in the period	**(235,797)**	**67,994**	**(167,803)**
Exchange differences	**(229)**	**18**	**(211)**
At 31 December 2011	**221,087**	**(58,884)**	**162,203**
Long-term business provision			
At 1 January 2011	**60,663**	**-**	**60,663**
Effect of new business during the year	**18,946**	**-**	**18,946**
Effect of claims during the year	**(5,028)**	**-**	**(5,028)**
Changes in assumptions	**5,335**	**-**	**5,335**
Change in methodology	**(983)**	**-**	**(983)**
Other movements	**2,781**	**-**	**2,781**
At 31 December 2011	**81,714**	**-**	**81,714**
Claims outstanding			
At 1 January 2010	522,570	(124,769)	397,801
Cash (paid)/received for claims settled in the year	(255,908)	86,852	(169,056)
Change in liabilities/reinsurance assets			
- arising from current year claims	448,666	(190,556)	258,110
- arising from prior year claims	(65,112)	20,754	(44,358)
Disposal of business	(6,664)	44	(6,620)
Exchange differences	24,539	(10,275)	14,264
At 31 December 2010	668,091	(217,950)	450,141
Provision for unearned premiums			
At 1 January 2010	214,496	(66,531)	147,965
Increase in the period	230,308	(65,804)	164,504
Release in the period	(217,954)	67,756	(150,198)
Exchange differences	9,705	(3,665)	6,040
At 31 December 2010	236,555	(68,244)	168,311
Long-term business provision			
At 1 January 2010	242,252	(2,591)	239,661
Reinsurance of existing business	-	(94,999)	(94,999)
Effect of new business during the year	18,096	(2,648)	15,448
Effect of claims during the year	(28,122)	8,801	(19,321)
Changes in assumptions	2,778	2,209	4,987
Change in methodology	25	(159)	(134)
Disposal of business	(180,572)	91,786	(88,786)
Other movements	6,206	(2,399)	3,807
At 31 December 2010	60,663	-	60,663

32 Borrowings

	2011		2010	
	Group	**Parent**	Group	Parent
	£000	**£000**	£000	£000
Debenture stock	**-**	**-**	6,000	6,000
Loan from subsidiary	**-**	**16,161**	-	5,391
Finance lease obligations	**1,937**	**-**	1,898	-
Total borrowings	**1,937**	**16,161**	7,898	11,391
Current	**661**	**-**	587	-
Non-current	**1,276**	**16,161**	7,311	11,391

During the year the £6,000,000 13% Debenture Stock 2018 was redeemed at a cost of £7,800,000, with the debt extinguishment costs being recognised in finance costs in the income statement

Finance lease obligations	**2011**	2010
Group	**£000**	£000
Minimum lease obligations payable		
Within 1 year	**771**	701
Between 1 & 5 years	**1,354**	1,394
	2,125	2,095
Less future finance charges	**(188)**	(197)
Present value of finance lease obligations	**1,937**	1,898
The present value of minimum lease obligations payable		
Within 1 year	**661**	587
Between 1 & 5 years	**1,276**	1,311
	1,937	1,898

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

33 Provisions for other liabilities

	Regulatory levies	**Restructuring and other provisions**	**Total**
Group	**£000**	**£000**	**£000**
At 1 January 2011	10,202	1,025	11,227
Additional provisions	-	6	6
Used during year	(403)	(125)	(528)
Not utilised	(1,990)	-	(1,990)
Exchange differences	-	2	2
At 31 December 2011	7,809	908	8,717
Current	7,809	195	8,004
Non-current	-	713	713

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 has historically been based on a proportion of UK written premium The Group's provision was increased in 2008, reflecting management's view of the impact of changes in the funding arrangements (such that insurers may also be required to contribute to levies arising from compensation paid to retail deposit holders) amid uncertainty regarding the extent of the banking crisis The reduced provision reflects an updated assessment of the total potential levies

Restructuring and other provisions

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

34 Deferred tax

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

	Unrealised gains on investments £000	Net retirement benefit assets £000	Equalisation reserve £000	Other differences £000	Total £000
Group					
At 1 January 2010	33,324	5,884	6,069	(7,263)	38,014
Charged/(credited) to income	3,919	(45)	(807)	1,026	4,093
(Credited)/charged to income - resulting from reduction in tax rate	(1,035)	(210)	(218)	37	(1,426)
Charged to equity				1,322	1,322
Credited to equity	-	-	-	(6)	(6)
Disposal of business	(3,450)	-	-	-	(3,450)
Exchange differences	7	(3)	-	(569)	(565)
At 31 December 2010	32,765	5,626	5,044	(5,453)	37,982
(Credited)/charged to income	(3,746)	(148)	1,011	(1,459)	(4,342)
(Credited)/charged to income - resulting from reduction in tax rate	(2,457)	(404)	(375)	116	(3,120)
Credited to equity	-	-	-	(23)	(23)
Credited to equity - resulting from reduction in tax rate	-	-	-	(11)	(11)
Acquired with subsidiary	-	-	-	(78)	(78)
Exchange differences	-	(5)	-	(22)	(27)
At 31 December 2011	26,562	5,069	5,680	(6,930)	30,381

Parent

The deferred tax liability, shown below, arises on unrealised gains on investments The decrease of £145,000 (2010 £78,000 decrease), of which £13,000 (2010 £6,000) is resulting from the reduction in tax rate, is recognised in the income statement for the year

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

	2011 Group £000	Parent £000	2010 Group £000	Parent £000
Deferred tax liabilities	**35,914**	**37**	42,502	182
Deferred tax assets	**(5,532)**	**-**	(4,520)	-
	30,382	**37**	37,982	182

The Group has unused tax losses of £8,315,000 (2010 £9,773,000) arising from life business deferred acquisition costs, pension business and capital transactions, which are available for offset against future profits No deferred tax asset has been recognised due to the unpredictability of future profit streams

The aggregate amount of temporary differences associated with undistributed earnings of subsidiaries and branches for which deferred tax liabilities have not been recognised is £79,158,000 (2010 £83,962,000) No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future

35 Deferred income

Group	**2011** **£000**	2010 £000
Reinsurance commissions receivable	**17,163**	20,150
Other deferred income	**421**	449
Total	**17,584**	20,599
Current	**17,584**	20,594
Non-current	**-**	5

36 Other liabilities

	2011		2010	
	Group **£000**	**Parent** **£000**	Group £000	Parent £000
Creditors arising out of direct insurance operations	**7,087**	**-**	2,343	-
Creditors arising out of reinsurance operations	**14,076**	**-**	17,665	-
Derivative liabilities	**1,432**	**-**	-	-
Other creditors	**33,266**	**-**	15,357	-
Amounts owed to related parties	**-**	**-**	32	-
Accruals	**12,188**	**92**	12,756	282
	68,049	**92**	48,153	282
Current	**66,361**	**92**	48,153	282
Non-current	**1,688**	**-**	-	-

Derivative liabilities are in respect of equity futures contracts and are detailed in note 26

The above carrying amounts are a reasonable approximation of fair value

37 Commitments

Capital commitments

Capital expenditure contracted for at the year end date but not yet incurred is as follows

Group	**2011 £000**	2010 £000
Property, plant and equipment	**171**	184

Operating lease commitments

The Group leases premises and equipment under non-cancellable operating lease agreements

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

	2011 £000	2010 £000
Within 1 year	**2,330**	1,530
Between 1 & 5 years	**4,926**	4,479
After 5 years	**9,892**	7,416
	17,148	13,425

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

	2011 £000	2010 £000
Within 1 year	**3,115**	2,707
Between 1 & 5 years	**8,257**	8,600
After 5 years	**3,389**	2,964
	14,761	14,271

Operating lease rentals charged to the income statement during the year	**3,502**	3,141
Total future minimum sublease payments expected to be received under non-cancellable subleases	**40**	64

38 Parent, subsidiary and associate undertakings

Ultimate parent company and controlling party

The Company is a wholly owned subsidiary of Allchurches Trust Limited, a company incorporated in England Its ultimate parent and controlling company is Allchurches Trust Limited, for which copies of the financial statements are available from the registered office as shown on page 2 The parent companies of the smallest and largest groups for which group financial statements are drawn up are Ecclesiastical Insurance Group plc and Allchurches Trust Limited respectively All the entities listed are included within the consolidated financial statements Voting rights are in line with the holdings of Ordinary shares

Subsidiary undertakings	**Share capital**	**Holding of shares by** **Parent**	**Subsidiary**
Incorporated and operating in Great Britain, engaged in investment, insurance and financial services or other insurance related business			
Ecclesiastical Insurance Office plc	Ordinary shares	100%	-
	8 625% Non-Cumulative Irredeemable Preference shares	5 6%	-
Ecclesiastical Underwriting Management 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%
Lycetts Holdings Limited	Ordinary shares	56 2%	-
Lycett, Browne-Swinburne & Douglass Limited	Ordinary shares	-	100%
Lycetts Financial Services Limited	Ordinary shares	-	100%
Highflyer Bloodstock Agency Limited	Ordinary shares	-	100%
Farmers & Mercantile Insurance Brokers Limited	Ordinary shares	-	100%
Incorporated and operating in Great Britain, engaged in retail of goods and services			
Ecclesiastical 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			
ACS (NZ) Limited (previously known as Ansvar Insurance Limited)	Ordinary shares	-	100%
Joint venture			
Incorporated and operating in Great Britain, engaged in insurance broking business			
Amlin Plus Limited	Ordinary shares	-	40%

The percentage shareholdings of the subsidiaries listed above are the direct or indirect holdings of Ecclesiastical Insurance Office plc with the exception of Lycett, Browne-Swinburne & Douglass Limited, Lycetts Financial Services Limited, Highflyer Bloodstock Agency Limited, Farmers & Mercantile Insurance Brokers Limited and Amlin Plus Limited, all of which are owned by Lycetts Holdings Limited

Additionally, at the year end there were ten other subsidiary undertakings of which the assets and contributions to Group income are not significant

39 Non-adjusting events after the reporting period

Further acquisition of Lycetts shareholding

On 26 April 2012, the Parent acquired an additional 16 1% of the issued ordinary share capital of Lycetts, increasing its ownership interest to 72 3% A cash consideration of £6,347,000 was paid to the non-controlling interest shareholders and it is expected that the transaction will result in a reduction in the non-controlling interest and a gain will be recognised directly in retained earnings

40 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not included in the Group analysis, but are included within the Parent analysis below

The parent related party transactions below relate to Allchurches Trust Limited, the Group and Parent's immediate and ultimate parent company Group and Parent other related parties include Beaufort House Trust Limited, a company under common control, and the Group's pension schemes

2011	**Parent £000**	**Subsidiaries £000**	**Other related parties £000**
Group			
Trading, investment and other income, including recharges	**240**	**-**	**823**
Trading, investment and other expenditure, including recharges	**-**	**-**	**1,178**
Amounts owed by related parties	**5**	**-**	**404**
Amounts owed to related parties	**-**	**-**	**-**
Parent			
Trading, investment and other income, including recharges	**-**	**12,727**	**-**
Trading, investment and other expenditure, including recharges	**-**	**153**	**-**
Amounts owed by related parties	**-**	**728**	**-**
Amounts owed to related parties	**-**	**16,161**	**-**
2010			
Group			
Trading, investment and other income, including recharges	127	-	3,201
Trading, investment and other expenditure, including recharges	-	-	2,770
Amounts owed by related parties	13	-	479
Amounts owed to related parties	-	-	32
Parent			
Trading, investment and other income, including recharges	-	6,831	264
Trading, investment and other expenditure, including recharges	-	71	-
Amounts owed by related parties	-	924	-
Amounts owed to related parties	-	5,391	-

Transactions and services within the Group are made on commercial terms Amounts outstanding between Group companies are unsecured, are not subject to guarantees, and will be settled in cash No provisions have been made in respect of these balances

Group investments in related party mutual funds of £135,552,000 (2010 £148,949,000) are included in listed equity securities in note 25 to the financial statements

Key management compensation is disclosed in note 13

Ecclesiastical Insurance Group plc

Notice of Meeting

NOTICE is hereby given that the annual general meeting of Ecclesiastical Insurance Group plc will be held at Beaufort House, Brunswick Road, Gloucester GL1 1JZ on Thursday, 21 June 2012 at 12 35 pm for the following purposes

Ordinary business

1	To receive the report of the directors and accounts for the year ended 31 December 2011 and the report of the auditor thereon
2	To re-elect Mr W M Samuel as a director
3	To re-elect Sir Philip Mawer as a director
4	To re-elect Mr D Christie as a director
5	To re-elect Mr M C J Hews as a director
6	To re-elect Mr J F Hylands as a director
7	To re-elect Mr A P Latham as a director
8	To re-elect Mr M H Tripp as a director
9	To re-elect Ms D P Wilson as a director
10	To re-elect Mr S A Wood as a director
11	To consider the declaration of a dividend
12	To re-appoint Deloitte LLP as auditor and authorise the directors to fix their remuneration

By order of the Board

Mrs R J Hall, Secretary
26 April 2012

Only a member holding Ordinary shares or their duly appointed representative(s), is entitled to attend, vote and speak at the annual general meeting

A member holding Ordinary shares is entitled to appoint a proxy or proxies (who need not be a member of the Company) to exercise all or any of their rights to attend, speak and vote on their behalf at the meeting Such a member may appoint more than one proxy in relation to the annual general meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member

Any corporation which is a member holding Ordinary shares can appoint one or more corporate representatives who may exercise, on its behalf all of the same powers as that corporation could exercise if it were an individual member, provided that they do not do so in relation to the same share or shares and that they act within the powers of their appointment