

ECCLESIASTICAL INSURANCE OFFICE PLC PRELIMINARY ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006

Gross written premiums from general and long term business operations amounted to £403.3m (2005: £361.7m). Within the total, general insurance written premiums have increased by 3.4%, compared with an increase of 0.8% in 2005. Premium growth was constrained by an intensified competitive environment and the effect of planned reductions in business from the transformation programme being implemented in Canada and the run-off from agencies in the Mediterranean. Gross written premiums from long term operations increased by £30.0m, mainly as a result of the successful transfer of funds to secure existing funeral plan business sold through the National Association of Funeral Directors.

The total net investment return (including investment income and net fair value movements) was £94.0m, 13% down on 2005. Progression of global equity markets followed an erratic pattern but the year ended with positive capital returns, tempered by rising interest rates in the UK.

Group profit before tax was £77.1m, compared with the record profit of £101.1m in 2005.

General business operations contributed £71.5m (£92.6m) to this result. Underwriting profits were £27.0m (£38.3m).

Profit before tax from long term business amounted to £3.5m, (£6.5m) after allowing for £2.2m in reserve strengthening.

Other operations, which include the results of activities that are not related to core business segments, contributed £2.1m (£2.0m) to group profit before tax.

Profit after taxation amounted to £54.6m (£72.0m).

Continued positive financial performance enabled the Board to approve a 6% increase in the annual grant, in respect of 2006, to Allchurches Trust, the ultimate parent of the group. In light of the excellent results over the last three years, additional grants totalling £9.1m were made to Allchurches Trust. Shareholders' funds grew to £345.0m (£301.5m).

During 2006, Standard & Poor's Rating Services reaffirmed the company's long term counterparty credit and insurer financial strength rating of A-, whilst A. M. Best raised their rating from A- to A.

The Directors recognise the increased levels of competition in general insurance which are likely to be reflected in the results for the current year, but remain optimistic about the prospects in the longer term.

Michael Tripp
Group Chief Executive

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	2006 £000	2005 £000
Net earned premiums	278,053	241,509
Fees and commission income	35,762	38,279
Net investment return	94,043	108,564
Total revenue	<u>407,858</u>	<u>388,352</u>
Claims and change in insurance liabilities	(231,965)	(180,252)
Reinsurance recoveries	50,118	36,537
Fees, commissions and other acquisition costs	(69,503)	(66,230)
Other operating and administrative expenses	(53,664)	(46,699)
Change in provisions for investment contract liabilities	(8,865)	(6,992)
Change in net asset value attributable to unitholders	(7,828)	(7,340)
Total operating expenses	<u>(321,707)</u>	<u>(270,976)</u>
Operating profit	86,151	117,376
Finance costs	(641)	(765)
Transfers to the unallocated divisible surplus	(8,399)	(15,541)
Profit before tax	<u>77,111</u>	<u>101,070</u>
United Kingdom tax expense	(20,140)	(26,234)
Overseas tax expense	(2,402)	(2,827)
Profit attributable to equity holders of the parent	<u>54,569</u>	<u>72,009</u>

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

For the year ended 31 December 2006

	2006 £000	2005 £000
Net fair value gains on property	559	83
(Loss)/gain on currency translation differences	(4,316)	3,769
Net (expense)/income recognised directly in equity	<u>(3,757)</u>	<u>3,852</u>
Profit for the year after tax	54,569	72,009
Total recognised income and expense for the year	<u>50,812</u>	<u>75,861</u>

CONSOLIDATED BALANCE SHEET

At 31 December 2006

	2006	2005
	£000	£000
Assets		
Goodwill and other intangible assets	5,396	4,710
Deferred acquisition costs	29,477	29,121
Deferred tax assets	2,220	1,480
Pension assets	18,281	17,316
Property, plant and equipment	10,533	9,047
Investment property	36,207	29,959
Financial investments	877,346	814,945
Reinsurers' share of contract provisions	160,773	150,553
Current tax recoverable	206	1,129
Other assets	85,539	79,252
Cash and cash equivalents	234,425	169,301
Total assets	<u>1,460,403</u>	<u>1,306,813</u>
Equity		
Share capital	80,477	76,977
Share premium account	4,632	3,792
Retained earnings and other reserves	259,900	220,741
Total shareholders' equity	<u>345,009</u>	<u>301,510</u>
Liabilities		
Insurance contract provisions	830,386	768,639
Investment contract liabilities	56,214	48,846
Unallocated divisible surplus	38,105	29,706
Finance lease obligations	1,695	1,573
Provisions for other liabilities and charges	6,671	5,422
Retirement benefit obligations	8,506	7,103
Deferred tax liabilities	50,077	42,259
Current tax liabilities	4,984	7,607
Deferred income	15,140	15,187
Other liabilities	41,596	30,088
Net asset value attributable to unitholders	62,020	48,873
Total liabilities	<u>1,115,394</u>	<u>1,005,303</u>
Total shareholders' equity and liabilities	<u>1,460,403</u>	<u>1,306,813</u>

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

	2006	2005
	£000	£000
Net cash from operating activities	112,340	69,614
Cash flows from investing activities		
Purchases of property, plant and equipment	(2,333)	(2,990)
Proceeds from the sale of property, plant and equipment	86	75
Purchases of intangible assets	(2,062)	(1,283)
Purchases of financial investments and investment property	(276,745)	(268,445)
Sale of financial investments and investment property	246,463	187,815
Net cash used by investing activities	<u>(34,591)</u>	<u>(84,828)</u>
Cash flows from financing activities		
Net proceeds from the issue of shares	4,340	22,440
Payment of finance lease liabilities	(444)	(429)
Repayment of other borrowings	-	(3)
Dividends paid to company's shareholders	(6,463)	(4,797)
Donations paid to ultimate parent undertaking	(5,200)	(8,250)
Net cash (used by)/from financing activities	<u>(7,767)</u>	<u>8,961</u>
Net increase/(decrease) in cash and cash equivalents	<u>69,982</u>	<u>(6,253)</u>
Cash and cash equivalents at beginning of year	169,301	172,193
Exchange (losses)/gains on cash and cash equivalents	(4,858)	3,361
Cash and cash equivalents at end of year	<u>234,425</u>	<u>169,301</u>

NOTES TO THE PRELIMINARY ANNOUNCEMENT OF RESULTS

For the year ended 31 December 2006

1. Basis of preparation

The company has prepared this preliminary announcement using the same accounting policies and methods of computation as the full financial statements for the years ended 31 December 2005 and 31 December 2006 as prepared under International Financial Reporting Standards (IFRS).

2. Dividends

	2006	2005
	£000	£000
<i>Ordinary</i>		
• interim declared 0.292p per share (2005: 0.292p per share)	500	410
<i>10 per cent Redeemable Second Cumulative Preference</i>		
• paid in the year	-	150
<i>8.625 per cent Non-Cumulative Irredeemable Preference</i>		
• paid in the year	5,553	4797

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

The directors do not recommend a final dividend on the ordinary shares for the year ended 31 December 2006 (2005: £nil).

3. Statement of changes in equity

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

4. General information

The financial information set out above does not constitute the company's statutory accounts for the year ended 31 December 2006 or 2005.

Whilst the financial information included in this preliminary announcement has been computed in accordance with International Financial Reporting Standards (IFRS), this announcement does not itself contain sufficient information to comply with IFRS. Full financial statements that comply with IFRS were approved by the Board of Directors on 21 March 2007 and are expected to be published in April 2007.

The statutory accounts for 2006 will be delivered to the Registrar of Companies shortly.

The auditors have reported in accordance with s.235 of the Companies Act 1985 on the statutory accounts for 2005 and 2006; their reports were unqualified and did not contain statements under s.237(2) or (3) of the Companies Act 1985.

This announcement was approved at a meeting of the Board of Directors held on 21 March 2007.

Ecclesiastical Insurance Office plc is a subsidiary of Ecclesiastical Insurance Group plc which is an investment holding company whose ordinary shares are not listed.

The ordinary shares of Ecclesiastical Insurance Office plc are not listed.

Copies of the audited financial statements are available from the secretary.