

ECCLESIASTICAL INSURANCE OFFICE PLC INTERIM ANNOUNCEMENT OF RESULTS FOR THE PERIOD ENDED 30 JUNE 2009

INTERIM REPORT

Total gross written premiums increased by 9.0% compared with the prior interim period. General business premiums increased by 9.7% and long term business premiums decreased by 3.1%.

Group profit before tax was £25.7m (H1 2008: £21.5m loss). General business operations contributed a £28.7m profit (H1 2008: £15.8m loss), including investment return, to this result. It includes an underwriting profit of £15.1m (H1 2008: £5.4m loss), with a combined operating ratio of 87.9% (H1 2008: 104.5%). The long term business contributed a £1.4m loss (H1 2008: £3.0m loss) to the group result before tax.

The first half of 2009 has seen the UK continue to experience the effects of what has become a protracted recession. While stock markets remained volatile following the heavy losses experienced in 2008, some recovery has been seen during the half year, and has continued after the interim period. The economic outlook remains uncertain however. Total net investment return for the group (including investment income and net fair value movements) was a profit of £24.9m (H1 2008: £35.3m loss).

Group profit after tax was £18.7m (H1 2008: £10.7m loss).

Shareholders' equity increased to £353.0m (31 December 2008: £342.3m). Shareholders' equity at the end of the interim prior period, 30 June 2008, was £350.3m. Our financial strength means we are well positioned to cope with the current economic challenges, and our results include an interim grant of £4.0m (£2.9m net of tax relief) to Allchurches Trust Limited, the ultimate parent undertaking. Our total grant for the full year 2008 was £7.0m.

The 2009 interim period has been characterised by an excellent underwriting result in our UK and London market operations, in contrast to the poor claims experience including high theft of metals costs incurred during the prior interim period. The improvement in the combined operating ratio to 87.9% reflects this performance.

In many ways the outlook today is very similar to the situation a year ago. The financial climate is still uncertain and the insurance market is still incredibly competitive, so the approach to our business hasn't changed and we're still working as hard as ever. Our programme of change continues as we simplify processes, utilise modern technology, engage our staff more widely and invest in our people. We're keeping customer service at the forefront of our minds, whilst becoming more competitive by reducing our expenses. We've already won some notable pieces of business, but we're hungry to achieve more.

Related party transactions

Related party transactions and changes to them since the last annual report are disclosed in note 7 to the condensed set of financial statements.

Principal risks and uncertainties

The principal risks and uncertainties that could have a material impact on the group's performance, such that actual results differ from expected and historical results, are detailed in note 1 to the interim report. There have been no material changes to the principal risks and uncertainties that were disclosed in notes 3 and 4 to our latest annual report, and no changes are anticipated in the next six months.

Going concern

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

There have been no material subsequent events to disclose in this interim report.

Michael Tripp

Group Chief Executive

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- (a) the condensed set of financial statements has been prepared in accordance with IAS 34, "Interim Financial Reporting";
- (b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- (c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

By order of the board,

Michael Tripp
Group Chief Executive

26 August 2009

CONDENSED CONSOLIDATED INCOME STATEMENT

For the 6 months to 30 June 2009

	30.06.09	30.06.08	31.12.08
	6 Months	6 Months	12 Months
	£000	£000	£000
Revenue			
Gross written premiums	229,937	210,838	403,608
Outward reinsurance premiums	(79,684)	(70,151)	(140,043)
Net change in provision for unearned premium	(16,566)	(10,197)	(2,300)
Net earned premiums	133,687	130,490	261,265
Fees and commission income	21,164	18,662	38,764
Net investment return	24,886	(35,315)	(52,584)
Total revenue	179,737	113,837	247,445
Expenses			
Claims and change in insurance liabilities	(108,426)	(125,145)	(252,451)
Reinsurance recoveries	31,772	34,131	71,608
Fees, commissions and other acquisition costs	(40,130)	(37,071)	(74,582)
Other operating and administrative expenses	(32,527)	(32,682)	(66,645)
Change in provisions for investment contract liabilities	(1,456)	6,375	13,893
Change in net asset value attributable to unitholders	(2,658)	6,820	14,749
Total operating expenses	(153,425)	(147,572)	(293,428)
Operating profit/(loss)	26,312	(33,735)	(45,983)
Finance costs	(134)	(112)	(460)
Transfers (to)/from the unallocated divisible surplus	(466)	12,332	23,962
Profit/(loss) before tax	25,712	(21,515)	(22,481)

Tax (expense)/credit	<u>(6,971)</u>	<u>10,791</u>	<u>7,088</u>
Profit/(loss) for the financial period attributable to equity holders of the parent	<u>18,741</u>	<u>(10,724)</u>	<u>(15,393)</u>

All the amounts above are in respect of continuing operations

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the 6 months to 30 June 2009

	30.06.09	30.06.08	31.12.08
	6 Months	6 Months	12 Months
	£000	£000	£000
Net fair value losses on property	-	-	(28)
(Loss)/gain on currency translation differences	<u>(2,286)</u>	<u>1,807</u>	<u>6,396</u>
Net (expense)/income recognised directly in equity	(2,286)	1,807	6,368
Profit/(loss) for the period after tax	<u>18,741</u>	<u>(10,724)</u>	<u>(15,393)</u>
Total recognised income and expense for the period	<u>16,455</u>	<u>(8,917)</u>	<u>(9,025)</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the 6 months to 30 June 2009

	Share capital £000	Share premium £000	Equalisation reserve £000	Revaluation reserve £000	Translation reserve £000	Retained earnings £000	Total £000
2009							
At 1 January	80,477	4,632	18,012	1,402	11,826	225,961	342,310
Dividends	-	-	-	-	-	(2,866)	(2,866)
Net charitable grant to ultimate parent	-	-	-	-	-	(2,880)	(2,880)
Total comprehensive income	-	-	-	-	(2,286)	18,741	16,455
Reserve transfers	-	-	1,988	-	-	(1,988)	-
At 30 June	<u>80,477</u>	<u>4,632</u>	<u>20,000</u>	<u>1,402</u>	<u>9,540</u>	<u>236,968</u>	<u>353,019</u>
2008							
At 1 January	80,477	4,632	21,285	1,430	5,430	248,797	362,051
Dividends	-	-	-	-	-	(2,866)	(2,866)
Total comprehensive income	-	-	-	-	1,807	(10,724)	(8,917)
Reserve transfers	-	-	(1,482)	-	-	1,482	-
At 30 June	<u>80,477</u>	<u>4,632</u>	<u>19,803</u>	<u>1,430</u>	<u>7,237</u>	<u>236,689</u>	<u>350,268</u>

2008

At 1 January	80,477	4,632	21,285	1,430	5,430	248,797	362,051
Dividends	-	-	-	-	-	(5,731)	(5,731)
Net charitable grant to ultimate parent	-	-	-	-	-	(4,945)	(4,945)
Group tax relief in excess of standard rate	-	-	-	-	-	(40)	(40)
Total comprehensive income	-	-	-	(28)	6,396	(15,393)	(9,025)
Reserve transfers	-	-	(3,273)	-	-	3,273	-
At 31 December	80,477	4,632	18,012	1,402	11,826	225,961	342,310

The equalisation reserve is not distributable and must be kept in compliance with the solvency capital 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.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2009

	30.06.09	30.06.08	31.12.08
	£000	£000	£000
Assets			
Goodwill and other intangible assets	26,557	25,605	26,419
Deferred acquisition costs	37,039	33,801	34,048
Deferred tax assets	2,438	2,724	2,589
Pension assets	25,979	22,826	24,974
Property, plant and equipment	10,817	11,231	11,094
Investment property	24,561	33,558	24,561
Financial investments	953,356	953,858	954,425
Reinsurers' share of contract provisions	201,750	191,979	198,921
Current tax recoverable	1,127	6,034	538
Other assets	134,493	123,458	106,606
Cash and cash equivalents	159,629	150,994	146,009
Total assets	1,577,746	1,556,068	1,530,184
Equity			
Share capital	80,477	80,477	80,477
Share premium account	4,632	4,632	4,632
Retained earnings and other reserves	267,910	265,159	257,201
Total shareholders' equity	353,019	350,268	342,310
Liabilities			
Insurance contract provisions	959,682	938,730	956,146
Investment contract liabilities	42,711	48,587	40,943
Unallocated divisible surplus	16,340	27,504	15,874
Finance lease obligations	1,718	1,517	1,586
Provisions for other liabilities and charges	14,084	8,406	13,589
Retirement benefit obligations	4,988	12,903	5,021

Deferred tax liabilities	33,131	38,776	32,358
Current tax liabilities	5,836	1,762	2,914
Deferred income	20,164	18,237	18,200
Other liabilities	56,586	46,350	44,401
Net asset value attributable to unitholders	69,487	63,028	56,842
Total liabilities	1,224,727	1,205,800	1,187,874
Total shareholders' equity and liabilities	1,577,746	1,556,068	1,530,184

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the 6 months to 30 June 2009

	30.06.09 6 Months £000	30.06.08 6 Months £000	31.12.08 12 Months £000
Profit/(loss) before tax	25,712	(21,515)	(22,481)
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	1,188	1,025	2,159
Loss/(gain) on disposal of property, plant and equipment	143	(9)	88
Amortisation of intangible assets	926	734	1,694
Net fair value losses on financial instruments & investment property	552	70,743	123,164
Dividend and interest income	(21,892)	(32,200)	(69,286)
Finance expense	134	112	460
<i>Changes in operating assets and liabilities:</i>			
Net increase in insurance contract provisions	6,909	20,427	28,705
Net (increase)/decrease in reinsurers' share of contract provisions	(3,218)	37	(4,871)
Net increase/(decrease) in investment contract liabilities	1,768	(6,333)	(13,976)
Net increase in deferred acquisition costs	(3,258)	(1,670)	(1,300)
Net increase in other assets	(27,536)	(13,356)	(675)
Net increase in operating liabilities	14,210	8,902	2,067
Net increase/(decrease) in other liabilities	13,572	(16,725)	(37,137)
Cash generated by operations	9,210	10,172	8,611
Dividends received	7,410	8,587	16,023
Interest received	18,665	20,223	41,665
Interest paid	(134)	(112)	(460)
Tax paid	(2,586)	(912)	(2,229)
Net cash from operating activities	32,565	37,958	63,610
Cash flows from investing activities			
Purchases of property, plant and equipment	(636)	(1,365)	(2,138)
Proceeds from the sale of property, plant and equipment	6	50	48
Purchases of intangible assets	(593)	(751)	(2,392)
Acquisition of subsidiary, net of cash acquired	(184)	(20,699)	(20,781)
Purchases of financial investments	(58,385)	(242,884)	(492,376)
Sale of financial instruments	53,936	196,917	412,323
Net cash used in investing activities	(5,856)	(68,732)	(105,316)

Cash flows from financing activities

Payment of finance lease liabilities	(306)	(226)	(424)
Payment of group tax relief in excess of standard rate	-	-	(72)
Dividends paid to company's shareholders	(2,866)	(2,866)	(5,731)
Donations paid to ultimate parent undertaking	(3,000)	-	(4,000)

Net cash used in financing activities

	(6,172)	(3,092)	(10,227)
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Net increase/(decrease) in cash and cash equivalents

	20,537	(33,866)	(51,933)
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Cash and cash equivalents at the beginning of the period

	146,009	181,003	181,003
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Exchange (losses)/gains on cash and cash equivalents

	(6,917)	3,857	16,939
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Cash and cash equivalents at the end of the period

	159,629	150,994	146,009
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NOTES TO THE INTERIM ANNOUNCEMENT OF RESULTS FOR THE PERIOD ENDED 30 JUNE 2009**1. General information**

The results for the year ended 31 December 2008 are not statutory accounts. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis without qualifying the report, and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

The interim report was approved by the board on 26 August 2009. The group results for the six month periods to 30 June 2009 and 30 June 2008 are unaudited, but have been reviewed by Deloitte LLP whose review report is presented at the end of this report.

The principal risks and uncertainties of the group are in respect of insurance risk and financial risk. 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. 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. The group also manages insurance risk through a comprehensive reinsurance programme and proactive claims handling.

The most important components of financial risk are interest rate risk, credit risk, currency risk and 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 the income statement. 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 impact of this risk on the group result is discussed in the interim management report. These principal risks and uncertainties, together with details of the financial risk management objectives and policies of the group, are disclosed in the latest annual report.

The group's interim results are not subject to any significant impact arising from the seasonality or cyclicity of operations.

2. Accounting policies

The annual financial statements are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

In the current period the group has adopted IFRS 8, "Operating Segments", which is effective for accounting periods beginning on or after 1 January 2009. IFRS 8 sets out the requirements for the disclosure of information about an entity's operating segments which should follow the format of the financial information that is internally evaluated regularly by the chief operating decision maker. However, the internal reports reviewed by the Group Chief Executive follow the same format as those segments identified under IAS 14. Accordingly the segmental analysis presented in accordance with IFRS 8 is consistent with that previously disclosed in accordance with IAS 14. IAS 1, "Presentation of Financial Statements (revised 2007)", which is effective for accounting periods beginning on or after 1 January 2009, renames the primary financial statements and requires the inclusion of a statement of changes in equity as a primary statement, separate from the income statement and statement of comprehensive income. These changes will be reflected in the financial statements for the current annual reporting period, and therefore have also been adopted for this condensed set of financial statements.

With these exceptions, the same accounting policies and methods of computation are followed in the condensed set of financial statements as applied in the group's latest audited annual financial statements.

3. Segment information

The analysis below is prepared in accordance with IFRS 8, "Operating Segments".

The group is organised on a worldwide basis into the following business segments:

- **General business**
General business provides insurance cover for risks associated mainly with property, accident, motor and ancillary liability, such as public and employers' liability.
- **Long term business**
Long term business comprises life assurance, annuity and pension business.
- **Other**
This includes activities that are not related to the core business segments plus segments that are not reportable due to their immateriality, together with inter-segment eliminations and other reconciling items.

The analysis of the results by segment is shown below:

Six months ended	General	Long		
30 June 2009	business	term	Other	Group
	£000	business	£000	£000
Revenue				
Gross written premiums	220,376	9,561	-	229,937
Net earned premiums	124,915	8,772	-	133,687
Fee and commission income	18,190	296	2,678	21,164
Net investment return	14,482	6,303	4,101	24,886
Total revenue	157,587	15,371	6,779	179,737
Result				
General business underwriting	15,086			
Combined operating ratio	87.9%			
Investment return, net of expenses	13,752			
Operating profit/(loss)	28,838	(730)	(1,796)	26,312
Finance costs	(126)	(198)	190	(134)
Transfers to the unallocated divisible surplus	-	(466)	-	(466)
Profit/(loss) before tax	28,712	(1,394)	(1,606)	25,712
Tax (expense)/credit	(8,373)	110	1,292	(6,971)

Profit/(loss) attributable to equity holders of the parent	20,339	(1,284)	(314)	18,741
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Six months ended 30 June 2008	General business £000	Long term business £000	Other £000	Group £000
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Revenue				
Gross written premiums	200,966	9,872	-	210,838
Net earned premiums	121,218	9,272	-	130,490
Fee and commission income	16,688	446	1,528	18,662
Net investment return	(9,662)	(19,499)	(6,154)	(35,315)
Total revenue	128,244	(9,781)	(4,626)	113,837

Result

General business underwriting	(5,448)
<i>Combined operating ratio</i>	104.5%
Investment return, net of expenses	(10,310)

Operating loss	(15,758)	(15,297)	(2,680)	(33,735)
Finance costs	(66)	(18)	(28)	(112)
Transfers from the unallocated divisible surplus	-	12,332	-	12,332
Loss before tax	(15,824)	(2,983)	(2,708)	(21,515)
Tax credit	6,615	2,194	1,982	10,791
Loss attributable to equity holders of the parent	(9,209)	(789)	(726)	(10,724)

Twelve months ended 31 December 2008	General business £000	Long term business £000	Other £000	Group £000
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Revenue				
Gross written premiums	384,693	18,915	-	403,608
Net earned premiums	243,872	17,393	-	261,265
Fee and commission income	33,659	932	4,173	38,764
Net investment return	(5,255)	(32,769)	(14,560)	(52,584)
Total revenue	272,276	(14,444)	(10,387)	247,445

Result

General business underwriting	(1,858)
<i>Combined operating ratio</i>	100.8%
Investment return, net of expenses	(6,561)

Operating loss	(8,419)	(31,922)	(5,642)	(45,983)
Finance costs	(222)	(251)	13	(460)
Transfers from the unallocated divisible surplus	-	23,962	-	23,962
Loss before tax	(8,641)	(8,211)	(5,629)	(22,481)

Tax credit	3,128	3,280	680	7,088
Loss attributable to equity holders of the parent	(5,513)	(4,931)	(4,949)	(15,393)

4. Changes in estimates

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 timing of any payments. During the six month period, changes to claims reserve estimates made in prior years as a result of reserve development resulted in a release of £27m (H1 2008: £22m).

5. Tax

Income tax for the six month period is calculated at rates representing the best estimate of the average annual effective income tax rate expected for the full year, applied to the pre-tax result of the six month period.

6. Dividends

Dividends paid on the 8.625% Non-Cumulative Irredeemable Preference shares amounted to £2.9m (H1 2008: £2.9m).

No interim dividend was paid in the current or prior period.

7. Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation.

Charitable grants to the ultimate parent company are disclosed in the condensed consolidated statement of changes in equity.

There have been no other changes to related party transactions in the period which require disclosure.

8. Holding company

The ultimate holding company is Allchurches Trust Limited, a company limited by guarantee and a registered charity.

INDEPENDENT REVIEW REPORT TO ECCLESIASTICAL INSURANCE OFFICE PLC

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2009, which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated statement of financial position, the condensed consolidated statement of cash flows and related notes 1 to 8. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and

Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Deloitte LLP

Chartered Accountants and Statutory Auditors
26 August 2009
London, United Kingdom