Ecclesiastical Insurance Office plc

Half-yearly financial report for 6 months to 30 June 2010

Contents

Interim management report (unaudited)

Total gross written premiums increased by 8.8% compared with the prior interim period. General business premiums increased by 9.3% and long term business premiums decreased by 1.4%.

Group result before tax was a £9.9m loss (H1 2009: £25.7m profit). The general business underwriting result was a loss of £15.5m, mainly driven by adverse claims experience (H1 2009: £15.1m profit), with a combined operating ratio of 111.3% (H1 2009: 87.9%). The long term business contributed a £2.9m loss (H1 2009: £1.4m loss) to the group result before tax. Insurance broking activities contributed £0.9m profit (H1 2009: £0.5m profit).

Group net investment return (including amounts attributable to policyholders and unitholders) was £23.6m (H1 2009: £24.9m).

Group loss after tax was £10.0m (H1 2009: £18.7m profit).

Shareholders' equity decreased to £374.9m (31 December 2009: £392.8m). Shareholders' equity at the end of the interim prior period, 30 June 2009, was £353.0m. Our results include a special grant of £10.0m (£7.2m net of tax relief) to Allchurches Trust Limited, the ultimate parent undertaking, in respect of the profits made in 2009. Our total grant recognised during the full year 2009 was £8.5m (£6.1m net of tax relief).

The 2010 interim period underwriting result has been heavily impacted by a number of catastrophe claims events which have occurred in our general insurance underwriting territories, coupled with an increase in liability claims frequency and some resurgence of theft of metal losses. The highest profile loss event in the period was the earthquake in Chile on 27 February 2010 with a net loss to our London Market business of £8.5 million. This followed the earlier Haiti earthquake, and March saw severe hailstorms in Australia. The winter weather in the UK and Ireland was the coldest for many years. The overall level of claims incurred is in contrast to the low level witnessed throughout 2009. The decline in the combined operating ratio to 111.3% reflects this change in claims experience.

The UK underwriting market shows little evidence to date of meaningful rate hardening. We have successfully implemented increases in Australia and Canada where the market allows. The growth in our general business premiums includes the 100% reinsurance of Cornish Mutual, which commenced in the latter stages of 2009. On a constant exchange rate basis, underlying growth has been 1.5%.

Ansvar UK, which specialises in the not-for-profit sector, has produced healthy profits in the first half. In addition our broking business has had a successful period, weathering the current climate well with a 4% increase in income, and the record growth of our ethical investment funds has continued to exceed expectations.

The group has entered into an agreement, subject to regulatory and court approval, to dispose of a substantial proportion of its long term business assets and liabilities. The group has also reinsured part of this business with the prospective purchaser, effective from 1 January 2010. This has materially reduced reported net earned premiums for the half year, although the net impact on profit is not material. Further detail is provided in notes 9 and 10 to the condensed set of financial statements.

We remain cautious over the future outlook: the financial climate is still uncertain and the insurance market is highly competitive. It is as important as ever that we maintain our underwriting discipline, continue to do the right things for our customers and rise to the challenges that are ahead.

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.

Interim management report (unaudited)

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 condensed set of financial statements. 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, with the exception of the reduction in exposure to long term business insurance risk as referred to above, and in notes 9 and 10 to the condensed set of financial statements.

Going concern

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, despite the current uncertain economic outlook. Accordingly, we continue to adopt the going concern basis in preparing the half-yearly financial report.

Events subsequent to the reporting period date are detailed in note 9 to the condensed set of financial statements.

Michael Tripp
Group Chief Executive

Responsibility statement (unaudited)

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

Mark Hews
Chief Financial Officer

26 August 2010

Condensed consolidated income statement (unaudited)

for the 6 months to 30 June 2010

	Note	**30.06.10 6 Months £000**	30.06.09 6 Months £000	31.12.09 12 Months £000
Revenue				
Gross written premiums		**250,254**	229,937	447,821
Outward reinsurance premiums	10	**(187,465)**	(79,684)	(160,335)
Net change in provision for unearned premium		**(17,410)**	(16,566)	(10,557)
Net earned premiums		**45,379**	133,687	276,929
Fees and commission income		**23,128**	21,164	48,354
Net investment return		**23,602**	24,886	122,134
Total revenue		**92,109**	179,737	447,417
Expenses				
Claims and change in insurance liabilities		**(179,967)**	(108,426)	(225,167)
Reinsurance recoveries	10	**160,005**	31,772	52,482
Fees, commissions and other acquisition costs		**(43,959)**	(40,130)	(84,646)
Other operating and administrative expenses		**(37,636)**	(32,527)	(76,587)
Change in provisions for investment contract liabilities		**707**	(1,456)	(10,546)
Change in net asset value attributable to unitholders		**(107)**	(2,658)	(18,171)
Total operating expenses		**(100,957)**	(153,425)	(362,635)
Operating (loss)/profit		**(8,848)**	26,312	84,782
Finance costs		**(200)**	(134)	(185)
Transfers to the unallocated divisible surplus		**(874)**	(466)	(5,615)
(Loss)/profit before tax		**(9,922)**	25,712	78,982
Tax expense		**(121)**	(6,971)	(22,792)
(Loss)/profit for the financial period attributable to equity holders of the parent		**(10,043)**	18,741	56,190

All the amounts above are in respect of continuing operations.

Condensed consolidated statement of comprehensive income (unaudited)

for the 6 months to 30 June 2010

	30.06.10 6 Months £000	30.06.09 6 Months £000	31.12.09 12 Months £000
Net fair value losses on property	**-**	-	(422)
Gain/(loss) on currency translation differences	**2,218**	(2,286)	6,670
Net income/(expense) recognised directly in equity	**2,218**	(2,286)	6,248
(Loss)/profit for the period after tax	**(10,043)**	18,741	56,190
Total comprehensive (expense)/income attributable to equity holders of the parent	**(7,825)**	16,455	62,438

Condensed consolidated statement of changes in equity (unaudited)

for the 6 months to 30 June 2010

	Share capital £000	Share premium £000	Equalisation reserve £000	Revaluation reserve £000	Translation reserve £000	Retained earnings £000	Total £000
2010							
At 1 January	80,477	4,632	21,674	980	18,496	266,561	392,820
Total comprehensive income attributable to equity holders of the parent	-	-	-	-	2,218	(10,043)	(7,825)
Dividends	-	-	-	-	-	(2,866)	(2,866)
Net charitable grant to ultimate parent	-	-	-	-	-	(7,200)	(7,200)
Reserve transfers	-	-	(5,864)	-	-	5,864	-
At 30 June	80,477	4,632	15,810	980	20,714	252,316	374,929
2009							
At 1 January	80,477	4,632	18,012	1,402	11,826	225,961	342,310
Total comprehensive income attributable to equity holders of the parent	-	-	-	-	(2,286)	18,741	16,455
Dividends	-	-	-	-	-	(2,866)	(2,866)
Net charitable grant to ultimate parent	-	-	-	-	-	(2,880)	(2,880)
Reserve transfers	-	-	1,988	-	-	(1,988)	-
At 30 June	80,477	4,632	20,000	1,402	9,540	236,968	353,019
2009							
At 1 January	80,477	4,632	18,012	1,402	11,826	225,961	342,310
Total comprehensive income attributable to equity holders of the parent	-	-	-	(422)	6,670	56,190	62,438
Dividends	-	-	-	-	-	(5,731)	(5,731)
Net charitable grant to ultimate parent	-	-	-	-	-	(6,120)	(6,120)
Group tax relief in excess of standard rate	-	-	-	-	-	(77)	(77)
Reserve transfers	-	-	3,662	-	-	(3,662)	-
At 31 December	80,477	4,632	21,674	980	18,496	266,561	392,820

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.

Condensed consolidated statement of financial position (unaudited)

at 30 June 2010

	Note	**30.06.10**	30.06.09	31.12.09
		£000	£000	£000
Assets				
Goodwill and other intangible assets		**26,154**	26,557	26,421
Deferred acquisition costs		**40,286**	37,039	38,298
Deferred tax assets		**3,294**	2,438	3,373
Pension assets		**27,660**	25,979	27,495
Property, plant and equipment		**9,525**	10,817	9,933
Investment property		**24,471**	24,561	24,732
Financial investments	10	**1,009,114**	953,356	1,054,202
Reinsurers' share of contract liabilities	10	**371,263**	201,750	193,891
Current tax recoverable		**277**	1,127	110
Other assets		**146,841**	134,493	122,402
Cash and cash equivalents		**201,111**	159,629	193,584
Total assets		**1,859,996**	1,577,746	1,694,441
Equity				
Share capital		**80,477**	80,477	80,477
Share premium account		**4,632**	4,632	4,632
Retained earnings and other reserves		**289,820**	267,910	307,711
Total shareholders' equity		**374,929**	353,019	392,820
Liabilities				
Insurance contract liabilities		**1,061,760**	959,682	979,318
Investment contract liabilities		**50,512**	42,711	51,822
Unallocated divisible surplus		**22,363**	16,340	21,489
Finance lease obligations		**1,781**	1,718	1,696
Provisions for other liabilities		**14,188**	14,084	14,230
Retirement benefit obligations		**6,733**	4,988	6,115
Deferred tax liabilities		**38,340**	33,131	41,127
Current tax liabilities		**2,004**	5,836	7,458
Deferred income		**21,289**	20,164	20,637
Other liabilities		**66,977**	56,586	52,865
Net asset value attributable to unitholders	10	**199,120**	69,487	104,864
Total liabilities		**1,485,067**	1,224,727	1,301,621
Total shareholders' equity and liabilities		**1,859,996**	1,577,746	1,694,441

Condensed consolidated statement of cash flows (unaudited)

for the 6 months to 30 June 2010

	30.06.10	30.06.09	31.12.09
	6 Months	6 Months	12 Months
	£000	£000	£000
(Loss)/profit before tax	**(9,922)**	25,712	78,982
Adjustments for:			
Depreciation of property, plant and equipment	**1,225**	1,188	2,584
Loss on disposal of property, plant and equipment	**143**	143	14
Amortisation of intangible assets	**949**	926	1,967
Loss on disposal of intangible assets	**-**	-	91
Net fair value losses/(gains) on financial instruments & investment property	**3,778**	552	(69,358)
Dividend and interest income	**(29,290)**	(21,892)	(48,950)
Finance expense	**200**	134	185
Changes in operating assets and liabilities:			
Net increase in insurance contract liabilities	**78,538**	6,909	4,037
Net (increase)/decrease in reinsurers' share of contract liabilities	**(27,453)**	(3,218)	11,453
Net (decrease)/increase in investment contract liabilities	**(1,309)**	1,768	10,878
Net increase in deferred acquisition costs	**(1,696)**	(3,258)	(3,209)
Net increase in other assets	**(24,029)**	(27,536)	(12,230)
Net increase in operating liabilities	**10,087**	14,210	6,999
Net increase in other liabilities	**42,816**	13,572	55,520
Cash generated by operations	**44,037**	9,210	38,963
Dividends received	**9,810**	7,410	12,730
Interest received	**19,367**	18,665	37,763
Interest paid	**(200)**	(134)	(185)
Tax paid	**(5,648)**	(2,586)	(6,902)
Net cash from operating activities	**67,366**	32,565	82,369
Cash flows from investing activities			
Purchases of property, plant and equipment	**(520)**	(636)	(1,638)
Proceeds from the sale of property, plant and equipment	**13**	6	55
Purchases of intangible assets	**(648)**	(593)	(1,505)
Acquisition of businesses, net of cash acquired	**-**	(184)	(200)
Disposal of businesses, net of cash transferred	**(5)**	-	-
Purchases of financial investments & investment property	**(122,636)**	(58,385)	(138,950)
Sale of financial instruments & investment property	**70,582**	53,936	122,737
Net cash used by investing activities	**(53,214)**	(5,856)	(19,501)
Cash flows from financing activities			
Payment of finance lease liabilities	**(329)**	(306)	(339)
Payment of group tax relief in excess of standard rate	**-**	-	(59)
Dividends paid to company's shareholders	**(2,866)**	(2,866)	(5,731)
Donations paid to ultimate parent undertaking	**(4,500)**	(3,000)	(7,000)
Net cash used by financing activities	**(7,695)**	(6,172)	(13,129)
Net increase in cash and cash equivalents	**6,457**	20,537	49,739
Cash and cash equivalents at the beginning of the period	**193,584**	146,009	146,009
Exchange gains/(losses) on cash and cash equivalents	**1,070**	(6,917)	(2,164)
Cash and cash equivalents at the end of the period	**201,111**	159,629	193,584

Notes to the condensed set of financial statements (unaudited)

1. General information

The information for the year ended 31 December 2009 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. 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 498(2) or (3) of the Companies Act 2006.

The half-yearly financial report was approved by the board on 26 August 2010. The group results for the six month periods to 30 June 2010 and 30 June 2009 are unaudited, but have been reviewed by Deloitte LLP whose review report is presented on page 16.

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. A change during the interim period in the reinsurance of part of the group's long term business operations is disclosed in note 10.

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. 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 derives insurance premium from a range of geographical locations and classes of business. Depending on the location and class of the risk, there may be a seasonal pattern to the incidence of claims. However, given the mix of business that the group writes, overall the half-yearly results are not subject to any significant impact arising from the seasonality or cyclicality of operations.

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, despite the current uncertain economic outlook. Accordingly, we continue to adopt the going concern basis in preparing the half-yearly financial report.

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.

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.

Notes to the condensed set of financial statements (unaudited)

3. Segment information

The analysis below is prepared in accordance with IFRS 8, "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. 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, with a branch situated in Ireland. In addition to the Ecclesiastical and Ansvar UK business, the group holds a global portfolio of risks through its London Market operation, Ecclesiastical Underwriting Management Limited.

  Australia and New Zealand

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

  Canada

  The group operates a general insurance Ecclesiastical branch in Canada.

  Other general insurance

  General insurance activities that are either in run-off or not reportable due to their immateriality are included here in aggregate, together with central underwriting expenses.

- **Long term business**

  Long term business comprises life assurance, annuity and pension business.

- **All other segments**

  This includes the insurance broking, financial and risk advisory services, fund management and other investment activities of group subsidiaries 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.

Segment revenue	**6 months ended 30.06.10**		6 months ended 30.06.09	
General business by territory	**Gross written premiums £000**	**Fee and commission income £000**	Gross written premiums £000	Fee and commission income £000
United Kingdom and Ireland	**183,428**	**16,687**	174,643	15,632
Australia and New Zealand	**41,755**	**4,468**	33,482	3,433
Canada	**12,820**	**919**	10,164	576
Other general insurance	**6,390**	**53**	5,762	12
Inter-territory eliminations	**(3,569)**	**(1,707)**	(3,675)	(1,463)
Total general business	**240,824**	**20,420**	220,376	18,190
Long term business	**9,430**	**316**	9,561	296
All other segments	**-**	**5,415**	-	4,484
Total segments revenue	**250,254**	**26,151**	229,937	22,970
Inter-segment eliminations	**-**	**(3,023)**	-	(1,806)
Group revenue	**250,254**	**23,128**	229,937	21,164

Notes to the condensed set of financial statements (unaudited)

3. Segment information (continued)

General business by territory	12 months ended 31.12.09 Gross written premiums £000	Fee and commission income £000
United Kingdom and Ireland	314,721	36,482
Australia and New Zealand	80,539	7,638
Canada	23,615	1,436
Other general insurance	16,072	249
Inter-territory eliminations	(7,249)	(3,252)
Total general business	427,698	42,553
Long term business	20,123	670
All other segments	-	9,444
Total segments revenue	447,821	52,667
Inter-segment eliminations	-	(4,313)
Group revenue	447,821	48,354

Group revenues are not materially concentrated on any single external customer.

Segment result

General insurance business segmental results comprise the underwriting profit or loss and 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.

6 months ended 30 June 2010

General business by territory	*Combined operating ratio*	Underwriting £000	Investment return £000	Total £000
United Kingdom and Ireland	113.5%	(13,172)	7,588	(5,584)
Australia and New Zealand	106.2%	(1,492)	2,772	1,280
Canada	102.4%	(224)	821	597
Other general insurance		(678)	17	(661)
Inter-territory eliminations		116	-	116
General business segment result	111.3%	(15,450)	11,198	(4,252)
Long term business result				(2,943)
All other segments				193
Total segments loss				(7,002)
Reconciliation of total segments profit or loss to group profit or loss				
Non-underwriting and finance costs				(2,480)
Amortisation of intangibles on acquisitions				(297)
Inter-segment eliminations				(143)
Loss before tax				(9,922)
Tax expense				(121)
Loss attributable to equity holders of the parent				(10,043)

3. Segment information (continued)
Segment result (continued)

6 months ended 30 June 2009 **General business by territory**	*Combined operating ratio*	**Underwriting £000**	**Investment return £000**	**Total £000**
United Kingdom and Ireland	82.3%	16,498	11,867	28,365
Australia and New Zealand	111.8%	(2,112)	1,655	(457)
Canada	100.1%	(10)	1,012	1,002
Other general insurance		710	-	710
Inter-territory eliminations		-	(52)	(52)
General business segment result	87.9%	15,086	14,482	29,568
Long term business result				(1,394)
All other segments				(1,676)
Total segments profit				26,498
Reconciliation of total segments profit or loss to group profit or loss				
Non-underwriting and finance costs				(888)
Amortisation of intangibles on acquisitions				(300)
Inter-segment eliminations				402
Profit before tax				25,712
Tax expense				(6,971)
Profit attributable to equity holders of the parent				18,741

12 months ended 31 December 2009 **General business by territory**	*Combined operating ratio*	**Underwriting £000**	**Investment return £000**	**Total £000**
United Kingdom and Ireland	87.6%	23,974	56,445	80,419
Australia and New Zealand	97.5%	965	5,031	5,996
Canada	95.9%	653	1,687	2,340
Other general insurance		1,359	11	1,370
Inter-territory eliminations		-	(1,930)	(1,930)
General business segment result	89.6%	26,951	61,244	88,195
Long term business result				(4,251)
All other segments				963
Total segments profit				84,907
Reconciliation of total segments profit or loss to group profit or loss				
Non-underwriting and finance costs				(5,169)
Amortisation of intangibles on acquisitions				(685)
Inter-segment eliminations				(71)
Profit before tax				78,982
Tax expense				(22,792)
Profit attributable to equity holders of the parent				56,190

Notes to the condensed set of financial statements (unaudited)

3. Segment information (continued)

Segment total assets

General business by territory	**30.06.10 £000**	30.06.09 £000	31.12.09 £000
United Kingdom and Ireland	**1,044,126**	951,539	976,074
Australia and New Zealand	**201,664**	174,412	205,807
Canada	**84,058**	65,398	80,159
Other general insurance	**2,172**	2,841	2,097
Inter-territory eliminations	**(13,589)**	(8,915)	(14,936)
Total general business	**1,318,431**	1,185,275	1,249,201
Long term business	**337,754**	309,900	333,854
All other segments	**55,590**	57,187	58,166
Total segment assets	**1,711,775**	1,552,362	1,641,221
Assets attributable to third party unitholders	**200,643**	77,789	105,390
Inter-segment eliminations	**(52,422)**	(52,405)	(52,170)
Group total assets	**1,859,996**	1,577,746	1,694,441

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 £23m (H1 2009: £27m).

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 2009: £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.

Notes to the condensed set of financial statements (unaudited)

9. Non-adjusting event after the reporting period

Since the end of the reporting period, and prior to the approval of the half-yearly financial report, the group has announced its intention to dispose of a substantial proportion of the long term business assets and liabilities of a subsidiary, Ecclesiastical Life Limited. These operations have not been classified as held for sale at 30 June 2010, as they were not then available for immediate sale. The transaction has been agreed, subject to receiving regulatory and court approval. The profit or loss arising on disposal is subject to final valuation of the assets and liabilities to be transferred, which are yet to be determined.

Those activities which are to be discontinued by the group are included within the long term business segment, for which additional disclosures relating to the reporting period are provided in note 3.

10. Change in reinsurance arrangements

The group has entered into a reinsurance agreement with the prospective purchaser of part of the long term business being disposed of (referred to in note 9) such that these operations have become 100% reinsured with effect from 1 January 2010. The purpose of this agreement has been to transfer Ecclesiastical Life Limited's risks and rewards in the reinsured business to the prospective purchaser in preparation for the sale. Although the agreement does not materially affect the net results for the period, it has had the following impact on the financial statements for the period:

- The condensed consolidated income statement for the interim period reflects the inclusion of £100.5m outward reinsurance premiums, and a £94.2m increase in reinsurance recoveries. The net difference between these items is due to movements in gross insurance reserves during the period.
- Reinsurers' share of contract liabilities recognised on the condensed consolidated statement of financial position have increased by £144.6m; representing £92.2m in respect of insurance contracts and £52.4m in respect of investment contracts. Under the terms of the agreement, £148.6m of financial investments were transferred to the reinsurer. Included within the increase in net asset value attributable to unitholders is £52.0m in respect of OEIC funds transferred under this agreement.

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 2010, 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 10. 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 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" 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 2010 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
London, United Kingdom
26 August 2010