Directors

Directors	C. A. McLintock CA (Chairman) The Rt. Hon. the Viscount Churchill MA M. R. Cornwall-Jones MA, ACIS B. V. Day BA, LLB, FCII Mrs S. Homersham The Rt. Revd. D. G. Snelgrove TD, MA, DD W. H. Yates FRICS
Registered and Head Office	Beaufort House, Brunswick Road, Gloucester GL1 1JZ Tel : 01452 528533
Company Registration Number	1043742
Charity Registration Number	263960
Auditors	Binder Hamlyn, 20 Old Bailey, London EC4M 7BH

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Directors' Report

The directors present their report and review together with the audited accounts for the year ended 31 December 1997.

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

Principal activities

The principal activities of the trading subsidiaries throughout and at the end of the year remain the transaction of most forms of general and long term insurance in the United Kingdom and overseas and the provision of other financial services. A list of the company's subsidiary and associated undertakings is given on page 28.

Results and review

The income and charitable distributions of the Trust are shown in its profit and loss account on page 5.

Competitive trading conditions, experienced by our trading subsidiaries, have been a phenomenon common to virtually all the general insurance markets in which they operate. The inevitable pressure that these conditions place on business retention coupled with the expected cost of strengthening technical provisions have resulted in an underwriting loss of £9.7 million in the general business account after net additions to equalisation reserves and before investment income. Profit before tax remains satisfactory at £13 million.

Total premium volumes grew by 6.8%. Most of this increase was contributed by Chatham Reinsurance Corporation which became a wholly owned subsidiary in the year. In the other parts of the general insurance business, difficult market conditions and the impact of exchange rate movements combined to hold back premium growth below the rate of inflation.

Investment performance was strong. Income and realised gains grew by 14.9%. The focus of our investment strategy enabled us to share fully in the growth in stock market values during the year and played a major part in securing the significant increase in net assets.

The continued effort that was committed to the implementation of our growth strategy in the Financial Services Division was not fairly rewarded by the results achieved. Growth in gross premiums for life and pensions business fell back to 5% and the increase in new business was disappointingly low. In contrast mortgage completions and unit trust sales advanced strongly.

In both the life and pensions funds, investment performance continued to beat the WM averages and was a material factor in the board's approval of the appointed actuary's bonus recommendations. Total bonuses on all maturing "with profits" life contracts will have increased. The withdrawal of ACT credit has, however, resulted in a decrease in reversionary bonuses on "with profit" pension contracts.

The industry at large has faced severe criticism from the Government about the speed with which it has tackled the well publicised problems of pensions mis-selling. We are pleased to say that we were successful in meeting the targets set for resolving the relatively few priority cases identified in our Allchurches Life subsidiary and we are actively addressing the action required in the remaining categories. It is our belief that the reserve set aside will be adequate to meet the cost of compensation.

Part of the rationale behind the process of consolidation that has dominated the financial services sector worldwide over the last few years has been the scale of investment required in information technology to deliver improved quality and better value for money to customers. Ecclesiastical has committed itself to keeping pace with these developments. Amongst many systems initiatives developed during the year were the installation of image processing in the UK claims department and the capability to trade electronically with our business partners in the intermediary market. These expensive, but necessary, investments have been fully funded and charged to the non-technical account.

Distributions

During the course of the year charitable distributions amounting to £3.7 million were paid by the company. During the last five years a total of £14.3 million has been provided by group companies for church and charitable purposes. It is the company's policy not to make political donations.

Directors

The names of the directors of the company at the date of this report appear on page 1.

Mr B. V. Day was appointed a director on 1 January 1998 and Mrs S. Homersham was appointed a director on 25 June 1998. In accordance with the articles of association, they retire at the forthcoming annual general meeting and being eligible, offer themselves for election.

In accordance with the articles of association Mr C. A. McLintock and Mr M. R. Cornwall-Jones retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Directors' Report

Directors' interests

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

	Interest at 31.12.1997	*Interest at 1.1.1997 or date of appointment*
C. A. McLintock	500	*500*
The Rt. Hon. the Viscount Churchill	-	-
M. R. Cornwall-Jones	500	*500*
B. V. Day	3,220	*3,220*
Mrs S. Homersham	-	-
The Rt. Revd. D. G. Snelgrove	700	*700*
W. H. Yates	500	*500*

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

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss for the financial year and which comply with the provisions of the Companies Act 1985 applicable to insurance companies.

In preparing those financial statements, the directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1997. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for ensuring that the company keeps proper accounting records which disclose with reasonable accuracy, at all times, the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent fraud and other irregularities.

Employees

The company itself has no direct employees other than directors.

The group recognises the importance of employee communication and aims to keep employees informed about its affairs through the use of briefing groups, company newsletters and the annual publication of financial reports to all employees. Regular meetings are held between management and employees and discussion encouraged. It is the group's policy to give full consideration to applications for employment from disabled persons. Where possible, employment of persons who become disabled is continued and the necessary retraining provided to allow continuing service with the company.

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.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution proposing that Binder Hamlyn be re-appointed as auditors of the company will be put to the annual general meeting.

By order of the board

R. W. Clayton
Secretary

25 June 1998

Auditors' Report

To the members of Allchurches Trust Limited

We have audited the financial statements on pages 5 to 28 which have been prepared under the historic cost convention, as modified by the revaluation of certain assets, and in accordance with the accounting policies set out on pages 13 to 15.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Equalisation provision

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain an equalisation provision. The nature of the equalisation provision, the amount set aside at 31 December 1997, and the effect of the movement in the provision during the year on the balance on the general business technical account and profit on ordinary activities before taxation, are disclosed in the accounting policies and note 17 to the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the affairs of the company and the group as at 31 December 1997 and of the group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Binder Hamlyn

Binder Hamlyn
Chartered Accountants and Registered Auditors

20 Old Bailey
London
EC4M 7BH

25 June 1998

PARENT COMPANY PROFIT AND LOSS ACCOUNT
for the year ended 31 December 1997

	1997 £000	*1996 £000*
Income		
Gift aid from a subsidiary undertaking	4,000	*3,000*
Deposit interest	220	*162*
	4,220	*3,162*
Expenditure		
Charitable grants	3,711	*2,560*
Administrative expenses	2	*2*
	3,713	*2,562*
Balance carried forward	507	*600*

All the amounts above are in respect of continuing operations.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 31 December 1997

TECHNICAL ACCOUNT - GENERAL BUSINESS

		Notes	1997 £000	*1996 £000*
Earned premiums, net of reinsurance				
Gross premiums written	- continuing operations		202,245	*176,792*
	- acquisitions		-	*12,308*
		2(a)	202,245	*189,100*
Outward reinsurance premiums			63,926	*63,526*
Net written premiums			138,319	*125,574*
Change in the gross provision for unearned premiums			2,435	*414*
Change in the provision for unearned premiums, reinsurers' share			(344)	*(195)*
Change in the net provision for unearned premiums			2,779	*609*
Earned premiums, net of reinsurance			135,540	*124,965*
Claims paid	- gross amount		105,722	*109,140*
	- reinsurers' share		23,252	*26,564*
			82,470	*82,576*
Change in provision for claims	- gross amount		31,453	*(2,389)*
	- reinsurers' share		8,749	*(11,283)*
			22,704	*8,894*
Claims incurred, net of reinsurance			105,174	*91,470*
Net operating expenses		4(a)	38,859	*32,037*
Change in the equalisation provision		17	1,265	*(704)*
Total technical charges			145,298	*122,803*
Balance on the technical account for general business			(9,758)	*2,162*

Financial Statements

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 31 December 1997

		Notes	1997	*1996*
			£000	*£000*
TECHNICAL ACCOUNT - LONG TERM BUSINESS				
Earned premiums, net of reinsurance				
Gross premiums written		2(b)	18,338	*17,470*
Outward reinsurance premiums			314	*242*
			18,024	*17,228*
Investment income		3	22,771	*20,667*
Unrealised gains on investments			25,584	*14,991*
Total technical income			66,379	*52,886*
Claims paid	- gross amount		32,878	*32,967*
	- reinsurers' share		132	*134*
			32,746	*32,833*
Change in provision for claims	- gross amount		(298)	*(55)*
	- reinsurers' share		2	*19*
			(300)	*(74)*
Claims incurred, net of reinsurance			32,446	*32,759*
Change in other technical provisions				
Long term business provisions	- gross amount		3,450	*(3,406)*
	- reinsurers' share		(12)	*23*
			3,462	*(3,429)*
Technical provision for linked business			5,541	*4,425*
Change in other technical provisions, net of reinsurance			9,003	*996*
Net operating expenses		4(a)	3,392	*3,097*
Investment expenses and charges			610	*523*
Tax attributable to the long term business		8	1,646	*1,157*
Transfer to the fund for future appropriations			19,282	*13,754*
			24,930	*18,531*
Total technical charges			66,379	*52,286*
Balance on the technical account for long term business			-	*600*

All the amounts above are in respect of continuing operations.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1997

	Notes	1997	*1996*
NON-TECHNICAL ACCOUNT		£000	*£000*
Balance on the general business technical account		(9,758)	*2,162*
Balance on the long term business technical account		-	*600*
Tax credit attributable to shareholders' long term business profits		-	*296*
		(9,758)	*3,058*
Investment income	3	27,796	*24,185*
Investment expenses and charges	3	(1,706)	*(1,636)*
Other operations		404	*420*
Other charges	4(b)	(3,479)	*(1,998)*
Profit on ordinary activities before tax			
- continuing operations		13,257	*23,103*
- acquisitions		-	*926*
		13,257	*24,029*
Tax on profit on ordinary activities	8	2,425	*5,301*
Profit on ordinary activities after tax		10,832	*18,728*
Minority interests	15	3,293	*3,368*
Profit for the financial year		7,539	*15,360*
Charitable grants		3,753	*2,593*
Retained profit for the financial year		3,786	*12,767*

Non-equity interests included in minority interests and dividends are disclosed in note 15 to the accounts.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 1997

	1997	1996
Profit for the financial year	7,539	*15,360*
Unrealised surplus on revaluation of investments	9,286	*7,318*
Realised investment gains of investment trust subsidiary	5,781	*3,069*
Currency translation differences	(923)	*(924)*
Other movements	(79)	*282*
Total recognised gains and losses for the financial year	21,604	*25,105*

PARENT COMPANY BALANCE SHEET
at 31 December 1997

	Notes	1997	*1996*
		£000	*£000*
Fixed assets			
Investments:			
Shares in group undertakings	25	133,652	*116,308*
Current assets			
Prepayments and accrued income		20	*15*
Taxation		460	-
Cash at bank		3,163	*3,120*
		3,643	*3,135*
Creditors			
Amounts falling due within one year : accruals		7	*6*
Net current assets		3,636	*3,129*
Net assets		137,288	*119,437*
Reserves	13		
Revaluation and other reserves		133,602	*116,258*
Retained profits		3,686	*3,179*
		137,288	*119,437*

The financial statements on pages 5 to 28 were approved by the board of directors on 25 June 1998 and signed on their behalf by

C A Locr

M. R. Cornwall-Jones

C. A. McLINTOCK *Chairman*
M. R. CORNWALL-JONES *Director*

Financial Statements

CONSOLIDATED BALANCE SHEET
at 31 December 1997

	Notes	1997	*1996*
ASSETS		£000	*£000*
Investments	9		
Land and buildings		9,160	*9,804*
Investments in participating interests		64	*59*
Other financial investments		647,413	*593,544*
Value of long term insurance business		6,000	*6,000*
		662,637	*609,407*
Assets held to cover linked liabilities	10	23,104	*17,563*
Reinsurers' share of technical provisions			
Provision for unearned premiums		19,562	*19,931*
Long term business provision	16	1,631	*1,643*
Claims outstanding		51,875	*43,178*
		73,068	*64,752*
Debtors			
Debtors arising out of direct insurance operations	11	34,647	*34,224*
Debtors arising out of reinsurance operations		30,857	*26,888*
Other debtors		3,542	*3,157*
		69,046	*64,269*
Other assets			
Tangible assets	12	2,386	*2,745*
Cash at bank and in hand		59,032	*53,693*
		61,418	*56,438*
Prepayments and accrued income			
Accrued interest and rent		5,591	*5,835*
Deferred acquisition costs		12,158	*11,787*
Other prepayments and accrued income		3,817	*2,496*
		21,566	*20,118*
Total assets		910,839	*832,547*

CONSOLIDATED BALANCE SHEET
at 31 December 1997

	Notes	1997	1996
LIABILITIES		£000	£000
Reserves	13		
Revaluation and other reserves		78,494	63,784
Long term business reserve		6,000	6,000
General reserve		10,000	10,000
Profit and loss account		42,794	39,653
		137,288	119,437
Minority interests	15	82,257	79,658
Fund for future appropriations		86,612	67,330
Technical provisions			
Provision for unearned premiums		72,555	70,167
Long term business provision	16	220,182	216,732
Claims outstanding		221,895	190,952
Equalisation provision		6,561	5,296
		521,193	483,147
Technical provisions for linked liabilities		23,104	17,563
Provisions for other risks and charges	18	4	4
Deposits received from reinsurers		2,115	1,102
Creditors			
Creditors arising out of direct insurance operations		4,516	5,538
Creditors arising out of reinsurance operations		14,737	13,755
Other creditors including taxation and social security	19	35,826	42,770
		55,079	62,063
Accruals and deferred income		3,187	2,243
Total liabilities		910,839	832,547

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 1997
(excluding long term business)

	Notes	1997 £000	*1996 £000*
Net cash inflow from operating activities	20(a)	36,891	*36,773*
Loan interest paid		(2,824)	*(2,762)*
Preference dividends paid		(1,739)	*(1,600)*
Lease purchase interest paid		(106)	*(106)*
Taxation paid		(3,478)	*(3,999)*
Capital expenditure		(229)	*(505)*
Acquisitions and disposals		(3,966)	*(6,311)*
Charitable grants paid		(3,753)	*(2,527)*
Financing			
Repayment of loan		(5,000)	-
Capital element of lease purchase rental payments		(293)	*(277)*
		15,503	*18,686*
Cash flows were invested as follows:			
Increase in cash holdings		4,814	*1,232*
Net portfolio investment			
Purchases of ordinary shares		63,764	*52,200*
Purchases of fixed income securities		42,255	*41,269*
Sales of ordinary shares		(57,581)	*(42,027)*
Sales of fixed income securities		(37,749)	*(30,726)*
Sales of investment properties		-	*(3,262)*
Net investment of cash flows		15,503	*18,686*
Decrease in loans		5,000	-
Movement arising from cash flows	20(b)	20,503	*18,686*
Movement in long term business		28,697	*13,012*
Acquired with subsidiary		-	*25,192*
Changes in market values and exchange rate effects		19,910	*19,950*
Total movement in portfolio investments net of financing		69,110	*76,840*
Portfolio investments net of financing 1 January 1997		653,663	*576,823*
Portfolio investments net of financing 31 December 1997	20(b)	722,773	*653,663*

Accounting Policies

Basis of preparation

The financial statements have been prepared in accordance with Section 255A and Schedule 9A to the Companies Act 1985, as amended by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993, and the guidance on accounting for insurance business issued by the Association of British Insurers. The financial statements of the parent company have been prepared in accordance with Section 226 and Schedule 4 of the Companies Act 1985. Both the group and the parent company financial statements have been prepared in accordance with applicable accounting standards and, as far as possible, the Statement of Recommended Practice - Accounting by Charities.

Basis of consolidation

The assets, liabilities and results of subsidiary undertakings are included in the consolidated accounts on the basis of accounts made up to 31 December. In the parent company balance sheet, investments in subsidiary undertakings are stated at net asset value. Investments in associated undertakings are included at directors' valuation.

Foreign exchange

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

General business technical account

Premiums

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

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

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

Unearned premiums

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

Unexpired risks

Provision for unexpired risks is made where anticipated claims and administrative expenses are expected to exceed unearned premiums, after taking account of future investment income. Unexpired risks are assessed separately for each class of business. Surpluses and deficits are offset where business classes are considered to be managed together.

Claims

Full provision for outstanding claims is made on an individual basis for the estimated cost of claims notified but not settled by the balance sheet date after taking into account handling costs, anticipated inflation, salvage and other recoveries and settlement trends. A provision for claims incurred but not reported is established on statistical methods. Any differences between provisions and subsequent settlements are dealt with in the technical accounts of later years.

Accounting Policies

Equalisation provisions
Provision has been made in the group accounts for the equalisation provision required by the Insurance Companies (Reserves) Act 1995.

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

Long term business technical account

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

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

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

Bonuses
Reversionary bonuses are recognised in the long term business technical account when declared and terminal bonuses when paid.

Long term business provision
The long term business provision is determined by the group's Appointed Actuary following his annual investigation of the long term business. Initially, it is calculated to comply with the reporting requirements under the Insurance Companies Act 1982, principally using the net premium valuation method. This statutory solvency basis of valuation is then adjusted by eliminating the undistributed surplus determined by that valuation together with certain reserves advised under insurance companies regulations and general contingency reserves. It is then further reduced to reflect the impact of acquisition costs incurred which will be recovered out of future revenue margins. This has been determined by means of a Zillmer adjustment applied to the net premium valuation basis. This adjusted basis is referred to as the modified solvency basis. The consequent long term business provision is grossed up for the impact of reinsurance.

Allocation of surpluses and fund for future appropriations.
Surpluses arising on with-profits funds and funds which include participating business are determined by actuarial valuation of the assets and liabilities relating to these funds. These surpluses are appropriated by the directors, for the purpose of preparing the financial statements, to participating policyholders by way of bonuses and to shareholders' interests by way of transfers to the non- technical account from the long term business technical account. The balance of these funds, the allocation of which between policyholders and shareholders has not been determined at the end of the financial year, is carried forward in the fund for future appropriations. The transfer of shareholders' profit included in the non-technical account is grossed up at the full rate of corporation tax.

Accounting Policies

Investments

Listed equity investments are included in the balance sheet at mid-market value, and unlisted investments at directors' valuation. Mortgages, loans and other fixed interest securities are valued at amortised cost.
Investment properties were valued at 31 December 1997 on an open market existing use basis by independent chartered surveyors. Owner occupied properties were valued at 31 December 1997 at market value based on vacant possession. In accordance with SSAP 19, which requires a departure from the Companies Act 1985, no depreciation is provided in respect of freehold investment properties not occupied by the group. The directors consider that depreciation of these investment properties would not give a true and fair view.

Investment income and expenses

Investment income includes dividends, interest, rents, amortisation, gains and losses on the realisation of investments and related expenses. Dividends are included on the date that shares become quoted ex-dividend and are grossed up for applicable tax credits. Interest, rents and expenses are accounted for on an accruals basis. Realised gains and losses on investments represent net sales proceeds less cost or amortised cost as applicable. General business investment income and expenses are dealt with through the non-technical account. Long term business investment income and expenses are dealt with through the long term business technical account.

Unrealised investment gains and losses

Unrealised gains and losses on investments are calculated as the difference between market value and original or amortised cost. General business unrealised gains and losses are dealt with through the revaluation reserve. Long term business unrealised gains and losses are dealt with through the long term business technical account.

Deferred taxation

Deferred taxation is provided at appropriate rates of corporation tax in respect of timing differences where there is a reasonable probability that such taxation will become payable. Allowance is made in the long term business provision and technical provision for linked liabilities for deferred taxation at appropriate discounted rates in respect of the unrealised gains on investments, unrelieved management expenses and other timing differences.

Tangible assets

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

Computer equipment	5 years
Motor vehicles	length of lease
Fixtures, fittings, and office equipment	5 years
Owner occupied investment properties	50 years or length of lease, if shorter

Value of long term insurance business

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

Pensions

Pension costs are charged so as to spread the long-term cost over the expected service lives of employees.

Leasing commitments

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

Goodwill

Goodwill arising on the acquisition of subsidiary and associated undertakings is written off directly to reserves.

Notes to the Accounts

1 Exchange rates

	1997	*1996*
The principal rates of exchange used for translation are:		
United States of America	US$1.65	*US$1.71*
Canada	C$2.35	*C$2.35*
Republic of Ireland	IR£1.15	*IR£1.01*

2 Segmental analysis

(a) General business premiums

	1997		*1996*	
Class of business	Gross £000	Net £000	*Gross £000*	*Net £000*
Direct:				
Accident	3,853	3,700	*3,956*	*3,853*
Motor	24,786	22,491	*19,091*	*17,752*
Property	109,460	65,006	*110,588*	*62,867*
Liability	18,673	17,133	*17,497*	*16,165*
	156,772	108,330	*151,132*	*100,637*
Reinsurance accepted and London market	45,473	29,989	*37,968*	*24,937*
Total	202,245	138,319	*189,100*	*125,574*

Geographical analysis - on the basis of location of office				
United Kingdom	158,909	106,609	*156,569*	*103,397*
North America	40,022	29,311	*29,090*	*19,765*
Other overseas	3,314	2,399	*3,441*	*2,412*
Total	202,245	138,319	*189,100*	*125,574*

(b) Long term business premiums

Geographical analysis - on the basis of location of office				
United Kingdom	18,338	18,024	*17,470*	*17,228*

2 Segmental analysis (continued)

The analysis of long term business premiums written before reinsurance is :	1997 £000	1996 £000
Life insurance business		
- Single premiums	59	515
- Regular premiums	7,072	7,032
Annuity business		
- Single premiums	4,561	4,201
Pension business		
Non-linked contracts		
- Single premiums	735	277
- Regular premiums	2,300	2,232
Linked contracts		
- Single premiums	550	450
- Regular premiums	2,857	2,598
PHI business	204	162
Endowment certain business	-	3
	18,338	17,470

Gross new annualised regular premiums		
Life insurance	605	609
Pensions	574	569
	1,179	1,178

Periodic payments include recurrent single premiums designated as likely to result in regular premium payments at the time such contracts are written. Thereafter only increases in premiums originally designated as such are treated as new business.

(c) Profit before taxation		
United Kingdom	14,810	19,665
North America	(1,314)	3,893
Other overseas	(239)	471
	13,257	24,029

(d Net assets		
United Kingdom	129,677	108,933
North America	7,209	9,717
Other overseas	402	787
	137,288	119,437

2 Segmental analysis (continued)

(e) Balance sheet analysis

1997	General business	Long term business: Linked contracts	Long term business: Non-linked contracts	Long term business: Fund for future appropriations	Eliminations	Total
	£000	£000	£000	£000	£000	£000
Investments	377,758	-	206,849	86,612	(8,582)	662,637
Assets held to cover linked liabilities	-	23,104	-	-	-	23,104
Reinsurers' share of technical provisions	71,406	-	1,662	-	-	73,068
Other assets	137,754	-	14,276	-	-	152,030
	586,918	23,104	222,787	86,612	(8,582)	910,839
Reserves	137,288	-	-	-	-	137,288
Fund for future appropriations	-	-	-	86,612	-	86,612
Technical provisions	299,857	23,104	221,336	-	-	544,297
Other liabilities	149,773	-	1,451	-	(8,582)	142,642
	586,918	23,104	222,787	86,612	(8,582)	910,839

1996	*General business*	*Long term business: Linked contracts*	*Long term business: Non-linked contracts*	*Long term business: Fund for future appropriations*	*Eliminations*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Investments	*346,563*	*-*	*203,614*	*67,330*	*(8,100)*	*609,407*
Assets held to cover linked liabilities	*-*	*17,563*	*-*	*-*	*-*	*17,563*
Reinsurers' share of technical provisions	*63,079*	*-*	*1,673*	*-*	*-*	*64,752*
Other assets	*126,613*	*-*	*14,212*	*-*	*-*	*140,825*
	536,255	*17,563*	*219,499*	*67,330*	*(8,100)*	*832,547*
Reserves	*119,437*	*-*	*-*	*-*	*-*	*119,437*
Fund for future appropriations	*-*	*-*	*-*	*67,330*	*-*	*67,330*
Technical provisions	*264,962*	*17,563*	*218,185*	*-*	*-*	*500,710*
Other liabilities	*151,856*	*-*	*1,314*	*-*	*(8,100)*	*145,070*
	536,255	*17,563*	*219,499*	*67,330*	*(8,100)*	*832,547*

Eliminations relate to the long term business investment holdings in St Andrew Trust plc.

Notes to the Accounts

3 Investment activity account

	1997		1996	
	General business £000	Long term business £000	*General business £000*	*Long term business £000*
Investment income:				
- land and buildings	407	721	*440*	*789*
- other investments	22,441	16,650	*20,453*	*16,447*
- group undertakings	-	243	-	*227*
Gains on the realisation of investments	4,948	5,157	*3,292*	*3,204*
	27,796	22,771	*24,185*	*20,667*
Investment management expenses, including interest	(1,706)	(610)	*(1,636)*	*(523)*
	26,090	22,161	*22,549*	*20,144*
Unrealised gains on investments	14,710	25,584	*10,625*	*14,991*
Total investment return	40,800	47,745	*33,174*	*35,135*

Unrealised investment gains not relating to long term business are dealt with in the revaluation reserve.

4 Expenses

	1997		1996	
	General business £000	Long term business £000	*General business £000*	*Long term business £000*
(a) Net operating expenses				
Acquisition costs	46,852	1,429	*43,597*	*1,111*
Change in deferred acquisition costs	(435)	65	*(471)*	*41*
Administrative expenses	11,687	1,923	*9,001*	*1,972*
Reinsurance commissions and profit participation	(19,245)	(25)	*(20,090)*	*(27)*
	38,859	3,392	*32,037*	*3,097*

The group has incurred the following amounts in respect of:

		1997 General business	1997 Long term business	*1996 General business*	*1996 Long term business*
Depreciation :	- property	17	-	*78*	*5*
	- owned assets	425	89	*661*	*93*
	- leased assets	21	35	*71*	*67*
Auditors' remuneration :	- UK	131	29	*133*	*29*
	- overseas	140	-	*99*	-
	- fees for non-audit services	115	-	*36*	*2*

	1997 General business	1997 Long term business	*1996 General business*	*1996 Long term business*
(b) Other charges				
Debenture interest	780	-	*780*	-
Corporate business loan interest	1,237	-	*1,218*	-
Corporate expenditure	1,462	-	-	-
	3,479	-	*1,998*	-

Notes to the Accounts

5 Employee information

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

	1997		*1996*	
	General business No.	Long term business No.	*General business No.*	*Long term business No.*
United Kingdom	709	59	*693*	*53*
North America	62	-	*59*	-
Republic of Ireland	14	-	*13*	-
	785	59	*765*	*53*
	£000	£000	*£000*	*£000*
Wages and salaries	14,021	1,261	*13,042*	*1,138*
Social security costs	1,008	110	*961*	*98*
Other pension costs	2,232	201	*2,199*	*210*
	17,261	1,572	*16,202*	*1,446*

6 Directors' emoluments

	1997 £	*1996 £*
No director received emoluments from Allchurches Trust Ltd during the year.		
The aggregate emoluments of the directors in respect of services as non-executive directors of subsidiary undertakings were:	52,500	*43,000*
The chairman received no emoluments.		
Highest paid director's fees	35,000	*34,500*

7 Pensions

The group's main scheme is a defined benefit scheme for UK employees. The assets of the scheme are held separately from those of the group by the trustees of Ecclesiastical Insurance Office plc Staff Retirement Benefit Fund. Pension costs for this scheme are determined, on the basis of triennial valuations, by a qualified actuary using the aggregate method. The most recent valuation was at 31 August 1996. The assumptions which have the greatest effect on the valuation results are those related to the rate of return on investment and the rate of increase in salaries. It is assumed that there will be a margin of 2% between investment return and salary growth. Other than in respect of statutory pension increase no allowance was made for pension increases as these are separately funded by the group.

The most recent actuarial valuation showed that the market value of the scheme's assets was £48,286,000 and that the actuarial value of the assets was sufficient to cover the benefits that had accrued to members, after allowing for expected future increases in earnings, but did not exceed 105% of the value of the liabilities of the fund. The contribution of the group to the fund is and will remain at 16% of pensionable salary plus additional amounts in accordance with recommendations by the Scheme Actuary. The scheme is registered with the Registrar of Pension Schemes. Canadian pension liabilities are dealt with by payment to a Canadian Trustee Fund. Republic of Ireland pension liabilities are dealt with by payment to an Irish life office. The total funding cost for year was £2,208,000 (£2,398,000). Of this £2,117,000 (£2,308,000) related to the UK scheme.

8 Taxation

	Long term business technical account 1997 £000	*1996 £000*	Non-technical account 1997 £000	*1996 £000*
UK Corporation tax	663	*417*	1,042	*3,659*
Tax on franked investment income	967	*717*	1,229	*1,183*
Overseas tax	16	*23*	152	*30*
Prior year adjustment	-	-	-	*131*
Share of associated undertaking's tax	-	-	2	*2*
Tax attributable to shareholders' long term business profits	-	-	-	*296*
	1,646	*1,157*	2,425	*5,301*

9 Investments at current value

	1997 General business £000	1997 Long term business £000	1997 Total £000	*1996 General business £000*	*1996 Long term business £000*	*1996 Total £000*
Freehold land and buildings						
- occupied by the group	767	-	767	*718*	-	*718*
- other	1,488	6,905	8,393	*1,508*	*7,578*	*9,086*
	2,255	6,905	9,160	*2,226*	*7,578*	*9,804*
Other financial investments						
Shares and other variable yield securities and units in unit trusts:						
- UK stock exchange listed	211,515	164,361	375,876	*184,520*	*135,396*	*319,916*
- unlisted	217	530	747	*243*	*1*	*244*
	211,732	164,891	376,623	*184,763*	*135,397*	*320,160*
Debt and other fixed income securities:						
- UK stock exchange listed	141,559	51,068	192,627	*140,004*	*53,803*	*193,807*
- unlisted	348	360	708	*274*	*311*	*585*
Loans secured by mortgages	15,717	61,205	76,922	*13,155*	*65,230*	*78,385*
Other loans	83	450	533	*82*	*525*	*607*
	157,707	113,083	270,790	*153,515*	*119,869*	*273,384*
Total	369,439	277,974	647,413	*338,278*	*255,266*	*593,544*

The value of the group's investments at historical cost is £476,083,000 (£453,774,000).

10 Assets held to cover linked liabilities

	1997		1996	
	Current value £000	Historical cost £000	*Current value £000*	*Historical cost £000*
Assets held to cover linked liabilities	23,104	15,953	*17,563*	*13,438*

11 Debtors

Group debtors arising out of direct insurance operations

	1997			1996		
	General business £000	Long term business £000	Total £000	*General business £000*	*Long term business £000*	*Total £000*
Policyholders	11,919	1,699	13,618	*10,590*	*2,008*	*12,598*
Intermediaries	21,029	-	21,029	*21,626*	-	*21,626*
	32,948	1,699	34,647	*32,216*	*2,008*	*34,224*

12 Tangible assets

	£000
Cost:	
At 1 January 1997	10,824
Additions	789
Disposals	(578)
At 31 December 1997	11,035
Depreciation :	
At 1 January 1997	8,079
Additions	869
Disposals	(299)
At 31 December 1997	8,649
Net book value 31 December 1997	
General business	1,956
Long term business	430
	2,386
Net book value 1 January 1997	
General business	2,212
Long term business	533
	2,745

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

Notes to the Accounts

13 Reserves

	1997		1996	
	Parent £000	Group £000	*Parent £000*	*Group £000*
(a) Revaluation and other reserves				
Balance 1 January 1997	116,258	63,784	*94,346*	*53,159*
Currency translation differences	-	(278)	-	*(44)*
Other movements	-	(79)	-	*282*
Surplus arising from revaluation of securities	17,344	9,286	*21,912*	*7,318*
Realised investment gains of investment trust subsidiary	-	5,781	-	*3,069*
Balance 31 December 1997	133,602	78,494	*116,258*	*63,784*
(b) Long term insurance business reserve				
Balance 31 December 1997	-	6,000	-	*6,000*
(c) General reserve				
Balance 31 December 1997	-	10,000	-	*10,000*
(d Profit and loss account				
Balance 1 January 1997	3,179	39,653	*2,579*	*27,766*
Currency translation differences	-	(645)	-	*(880)*
Retained profit for the financial year	507	3,786	*600*	*12,767*
Balance 31 December 1997	3,686	42,794	*3,179*	*39,653*
Total capital and reserves	137,288	137,288	*119,437*	*119,437*

14 Reconciliation of movements in group shareholders' funds

	1997	*1996*
	£000	*£000*
Profit for the financial year	7,539	*15,360*
Other recognised gains and losses	14,065	*9,745*
	21,604	*25,105*
Charitable grants	(3,753)	*(2,593)*
Net movement in shareholders' funds	17,851	*22,512*
Opening shareholders' funds	119,437	*96,925*
Closing shareholders' funds	137,288	*119,437*

15 Minority interests

Minority interests comprise preference and ordinary share capital and attributable profits in subsidiary undertakings.

	Profit and Loss Account		Balance Sheet	
	1997	*1996*	1997	*1996*
	£000	*£000*	£000	*£000*
Equity interests				
St Andrew Trust plc				
Ordinary shares of £1 each	1,554	*1,501*	55,911	*56,638*
Chatham Holdings Inc.				
Common stock	-	*257*	-	*4,536*
	1,554	*1,758*	55,911	*61,174*
Non-equity interests				
Ecclesiastical Insurance Office plc				
2.8% First Cumulative Preference shares of £1 each	3	*6*	95	*212*
10% Redeemable Second Cumulative Preference shares of £1 each	300	*300*	3,000	*3,000*
8.625% Non-Cumulative Irredeemable Preference shares of £1 each	1,427	*1,294*	23,009	*15,000*
St Andrew Trust plc				
5.25% Cumulative Preference stock (now 3.675% plus tax credit)	9	*10*	242	*272*
	1,739	*1,610*	26,346	*18,484*
	3,293	*3,368*	82,257	*79,658*

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

Year of Redemption	Premium
1998 to 2002	5 per cent
2003 to 2007	2 1/2 per cent
2008 to 2012	Nil

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

16 Long term business provision

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

(a) Rates of interest		%
Assurances:		
Life		2.5 - 4.0
Pensions		3.0
Annuities:		
With profit	- deferred	2.5 - 4.5
Without profit	- deferred	3.5 - 5.25
	- vested	5.5 - 7.0
(b) Mortality tables		
Assurances		A67 - 70
Deferred annuities	- pensions	PA (90)
	- school fees	no mortality
Vested annuities	- pensions	PA (90)
	- other	a (90)

The mortality tables used have various deductions from age depending upon the type of business being valued. Further allowances were made for additional mortality resulting from AIDS where appropriate. The amount charged for bonuses and rebates in the long term business technical account relates entirely to reversionary and terminal bonuses paid and payable for the year, £6,050,000 (£5,676,000) of which has been included in the long term business provision.

17 Equalisation provision

As described in the accounting policies on page 14 the group has established a statutory equalisation provision. Of the amount included in the balance sheet, £4,561,000 (£2,296,000) relates to the statutory provision. The non-statutory claims equalisation reserve brought forward has been reduced from £3m to £2m.

18 Provisions for other risks and charges

The provision shown in the accounts relates to deferred taxation of a subsidiary company, St Andrew Trust plc, in respect of short term timing differences. If the investments of the group were realised at the amounts at which they are included in the accounts a liability to corporation tax of approximately £27.0m (£18.9m) would arise. No provision has been made in respect of these unrealised investment gains.

Notes to the Accounts

19 Other creditors including taxation and social security

	1997 £000	1996 £000
Amounts falling due within one year:		
Corporate business loans	-	5,000
Other creditors	4,637	4,205
Taxation	2,451	4,762
Bank overdraft	-	4
	7,088	13,971
Amounts falling due after more than one year:		
Debenture stock	6,000	6,000
Corporate business loans	22,000	22,000
Lease purchase contracts	738	799
	28,738	28,799
Total	35,826	42,770
Included in other creditors are obligations under lease purchase contracts due:		
In 1 year or less	384	400
Between 2 and 5 years	734	794
Over 5 years	4	5
	1,122	1,199

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

The corporate business loans are secured on the assets of Allchurches Mortgage Company Limited and Ecclesiastical Insurance Group plc's holdings of Ordinary shares and 9.5% Redeemable Third Non-Cumulative Preference shares in Ecclesiastical Insurance Office plc and are repayable:

	1997 £000	1996 £000
Within 1 year	-	5,000
Between 2 and 5 years	12,000	12,000
Over 5 years	10,000	10,000
	22,000	27,000

20 Notes to the cash flow statement

(a) Reconciliation of profit on ordinary activities before tax to net cash inflow from operating activities.

	1997 £000	1996 £000
Profit on ordinary activities before tax	13,257	24,029
Depreciation charges	463	810
Amortisation of fixed interest securities	(89)	85
Increase in net general insurance provisions	26,234	13,794
Cash received from long term business	-	(600)
Share of profits of associates	(5)	(6)
Tax on franked investment income	(1,232)	(1,183)
Loan interest payable	2,824	2,762
Lease purchase interest payable	106	106
Loss/(profit) on sales of tangible fixed assets	(22)	7
Realised investment gains	(4,948)	(3,292)
Movements in debtors less creditors	303	261
	36,891	36,773

20 Notes to the cash flow statement (continued)

(b) Movements in cash, portfolio investments and financing

	At 1 January 1997 £000	Cash flow £000	Changes in long term business £000	Changes in market value and exchange £000	At 31 December 1997 £000
Cash at bank and in hand	53,693	4,814	1,121	(596)	59,032
Shares and other variable yield securities	320,219	6,183	29,494	20,791	376,687
Fixed income securities	273,384	4,506	(6,786)	(314)	270,790
Investment properties	9,804	-	(673)	29	9,160
Assets held to cover linked liabilities	17,563	-	5,541	-	23,104
Borrowing due within 1 year	(5,000)	5,000		-	-
Borrowing due after 1 year	(16,000)	-	-	-	(16,000)
Balance 31 December 1997	653,663	20,503	28,697	19,910	722,773

21 Operating Leases

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

	1997 Premises £000	1997 Equipment £000	*1996 Premises £000*	*1996 Equipment £000*
Commitments				
Expiring:				
Within 1 year	16	-	*89*	-
Between 2 and 5 years	219	558	*174*	*447*
Over 5 years	1,200	-	*847*	-
	1,435	558	*1,110*	*447*
Payments	1,709	475	*1,468*	*335*

22 Capital commitments

There were no outstanding contracts for capital expenditure at 31 December 1997 (£226,000).

23 Related party transactions

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

During the year, £1.1m (£1.3m) of school fee annuities were paid by the group to Beaufort House Trust Limited, a related party by virtue of being under the common control of directors of operating subsidiaries.

24 Purchase of subsidiary undertaking

On 11 December 1997, Ecclesiastical Insurance Office plc purchased the remaining 27.3% holding of Chatham Holdings Inc.'s Common Stock. Consideration was by way of cash and an issue of 8.625% Non-Cumulative Irredeemable Preference shares. The group now owns the entire issued share capital of Chatham Holdings Inc.

Subsidiary and Associated Undertakings

25 Subsidiary undertakings	Share capital	Holdings of shares by: Parent	Subsidiaries
Incorporated and operating in Great Britain, engaged in investment, insurance and financial services or other insurance related business:			
Ecclesiastical Insurance Group plc	Ordinary shares	100%	
Allchurches Mortgage Company Limited	Ordinary shares	100%	
	6% Non-Cumulative Redeemable Preference shares		100%
Ecclesiastical Group Asset Management Limited	Ordinary shares		100%
Allchurches Investment Management Services Limited	Ordinary shares		100%
The Churches Purchasing Scheme Limited	Ordinary shares		100%
Ecclesiastical Underwriting Management Limited	Ordinary shares		100%
Ecclesiastical Insurance Office plc	Ordinary shares		100%
	2.8% First Cumulative Preference shares		61.9%
	9.5% Redeemable Third Non-Cumulative Preference shares		100%
	8.625% Non-Cumulative Irredeemable Preference shares		8%
Allchurches Life Assurance Limited	Ordinary shares		100%
Blaisdon Properties Limited	Deferred shares		100%
	Ordinary shares		100%
Eccint Limited	Ordinary shares		100%
Incorporated and operating in Great Britain, engaged in investment trust business:			
St Andrew Trust plc	Ordinary shares		61.6%
	5.25% Cumulative Preference stock (now 3.675% plus tax credit)		63.3%
Incorporated and operating in the United States of America, engaged in insurance business:			
Chatham Holdings Inc.	Common stock		100%
Chatham Reinsurance Corporation	Common stock		100%

All the subsidiaries listed are included within the consolidated financial statements.

Of the 61.6% holding of Ordinary shares in St Andrew Trust plc, 5.8% is held by the mutual life fund of Ecclesiastical Insurance Office plc.

There are also three other wholly owned subsidiary undertakings whose assets and contributions to group income are not significant.

Associated undertaking

Incorporated and operating in Great Britain, engaged in insurance business:

Wright Underwriting Group Limited	Ordinary shares		25%