Report and Accounts 31 December 1998

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Directors

Directors	Sir Alan McLintock (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	Deloitte & Touche, Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR

Directors' Report

The directors present their report and review together with the audited accounts for the year ended 31 December 1998.

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 29.

Results and review

The income and charitable distributions of the Trust are shown in its statement of financial activities on page 6.

In step with market trends, 1998 was not a good year for the general insurance operations of our principal trading subsidiary. In addition, profits were adversely affected by unrealised losses of £18.8 million in Ecclesiastical's listed subsidiary, St Andrew Trust. Despite these difficulties, grants received were maintained at last year's substantially increased level, enabling the Trust to continue its support to the Anglican Church and charitable institutions.

The pace of change occurring in the financial services sector accelerated further in 1998. It penetrated the major insurance broking houses and loss adjusting firms as well as the remainder of the leading composite insurers. This period of fundamental re-structuring has also been marked by a widespread deterioration in the profitability of general insurance driven by a perverse combination of intense competition and a marked increase in the frequency of major weather events.

This deterioration in trading results coincided with the adoption of a new statement of recommended practice on accounting for insurance business (the ABI SORP). Under its provisions, unrealised gains and losses on investments have now to be accounted for in the profit and loss account.

The consolidated pre-tax profit of £2.2 million (shown on page 9) is after bearing the cost of unrealised investment losses in St Andrew Trust. As will be apparent from the restated pre-tax profit of £34.3 million for 1997 this new requirement has introduced considerable volatility into the measurement of progress in the business from one year to another by reference to pre-tax profit alone.

Total gross premium income increased only marginally with relative strong growth from long term business. New life and pensions premiums grew by 19% on the industry standard measure but total general insurance volumes were virtually static.

Income from general business investments and realised gains increased strongly by 14.3%. In view of the uncertain conditions that prevailed in stock markets during the year, the opportunity was taken to crystallise a modest proportion of the sizeable gains that have been accumulated over past years.

After maintaining the general level of reversionary bonuses for several years on most life and pensions policies, it was finally necessary to respond to the downward trend in investment yields. The overall reduction in maturity values is, however, modest.

During the year, the business of Hinton & Wild was acquired; a specialist independent financial adviser in the equity release market. On 15 December the purchase was completed of Ansvar Insurance Co. Ltd. in the UK and Ansvar Australia Insurance Ltd. together with its subsidiary in New Zealand.

In addition, agreements were concluded to become the sole reinsurer and manager of Methodist Insurance PLC from 1 July. This followed formalisation of the agreement with the Baptist Insurance Company PLC reported last year. We have been working very closely with the boards and management of both companies to implement the new arrangements.

Ecclesiastical's commitment to investing in new information technology applications and raising customer service levels has continued. An advanced system to support the work of its skilled surveyors in the UK was developed and a contract was agreed to proceed with the installation of a new computer system for general business. ISO 9002 registration was achieved in part of the UK organisation.

Highly competitive markets and above average weather losses put the Ecclesiastical group to the test in 1998. Our principal trading subsidiary has not only come through with its financial strength substantially intact but the foundations have also been laid for the future development of the business along the specialist lines that increasingly distinguish Ecclesiastical in a rapidly consolidating environment.

Distributions

During the course of the year charitable distributions amounting to £3,636,200 (1997: £3,711,865) were paid by the company as follows:

	Distributions £	Donations No.
Church of England dioceses and parishes	3,090,250	234
Cathedrals	187,970	54
Other church and charitable bodies	357,980	235
	3,636,200	523

Due to its extensive nature, an analysis of these distributions is included in a separate publication. During the last five years a total of £16.5 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 are stated on page 1.

In accordance with the articles of association the Rt. Hon. the Viscount Churchill and the Rt. Revd. D. G. Snelgrove retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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 31.12.1998	*Interest at 1.1.1998*
Sir Alan 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 of a charity (namely the trustees) to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group as at the end of the financial year and of the profit or loss of the group and of the incoming resources and application of resources for that period.

In preparing those financial statements, the directors are required to select suitable accounting policies and apply them consistently. Reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1998. The directors are also required to state whether applicable accounting standards have been followed and whether 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 the group and which enable them to ensure that the financial statements comply with the Companies Act 1985, the Charities Act 1993 and the Charities (Accounts and Reports) Regulations 1995. They are also responsible for the group's system of internal control, for safeguarding the assets of the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' Report

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. 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 by disabled persons. Appropriate training is arranged for disabled persons, including retraining for alternative work of employees who become disabled, to promote their career development within the organisation.

Policy on payment of creditors

It is group policy to pay creditors promptly and fully, in accordance with the terms of their contracts.
The group has not adopted any particular external code.
Allchurches Trust Limited holds the investments in the group companies, does not trade and does not have suppliers within the meaning of the Companies Act 1985. The number of days' purchases represented by the amounts due to trade creditors of the main operating companies in the United Kingdom at 31 December 1998, calculated in accordance with Schedule 7 of the Companies Act 1985, was 8.2 days (8.4 days).

Year 2000

Many computer systems express dates using only the last two digits of the year. Those systems require modification or replacement to accommodate the year 2000 and similar date recognition problems, in order to avoid malfunctions and resulting disruption. The operation of our business depends not only on our computer systems, but also to some degree on those of our suppliers.

The group established a millennium compliance project in 1997 designed to assess and address the impact of the year 2000 on the group's business by the end of 1998, and that has been largely achieved. The total year 2000 related costs are estimated at £2,045,000 of which £744,000 had been incurred by the end of 1998. This largely represents external costs, the cost of internal resources used has not been separately identified.

Wherever possible, the potential impact of insurance claims arising from year 2000-related computer systems failures has been reduced by inserting exclusion clauses in policies issued by the group.

Introduction of the euro

The group conducts certain business in countries participating in the euro and has successfully dealt with its introduction. The group does not consider the introduction of the euro to have had a significant impact on its business, and the cost of implementing the changes was not material.

Going concern

The board has satisfied itself that the group has adequate resources to continue in operation for the foreseeable future. The group accounts have, therefore, been prepared on the going concern basis.

Auditors

Deloitte & Touche were appointed to fill a casual vacancy during the year.

In accordance with Section 385 of the Companies Act 1985, a resolution proposing that Deloitte & Touche 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

24 June 1999

Auditors' Report

To the members of Allchurches Trust Limited

We have audited the financial statements on pages 6 to 29 which have been prepared under the accounting policies set out on pages 14 to 16.

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 circumstances of the company and the group, 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 mis-statement, 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 reserves
Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amounts set aside at 31 December 1998, and the effect of the movement in those reserves during the year on the balance on the general business technical account and profit on ordinary activities before taxation, are disclosed in note 18.

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs and the incoming resources and application of resources of the company and the group as at 31 December 1998 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985, the Charities Act 1993 and Regulation 3 of the Charities (Accounts and Reports) Regulations 1995.

Deloitte & Touche
Chartered Accountants and Registered Auditors

Stonecutter Court,
London
EC4A 4TR

Deloitte & Touche

24 June 1999

Financial Statements

STATEMENT OF FINANCIAL ACTIVITIES

for the year ended 31 December 1998

	Group		Charity	
	1998	*1997*	1998	*1997*
		Restated		*Restated*
	£000	*£000*	£000	*£000*
Incoming resources				
Gift aid from a subsidiary undertaking	-	-	4,000	*4,000*
Deposit interest	274	*220*	274	*220*
(Loss)/profit from trading subsidiaries	(1,740)	*22,139*	-	-
Total incoming resources	(1,466)	*22,359*	4,274	*4,220*
Resources expended				
Direct charitable expenditure: charitable grants	3,671	*3,753*	3,636	*3,711*
Other expenditure: management and administration	-	-	1	*2*
	3,671	*3,753*	3,637	*3,713*
Net (outgoing)/incoming resources for the year	(5,137)	*18,606*	637	*507*
Other recognised gains and losses				
Movement in revaluation reserve	-	-	(6,686)	*14,331*
Currency translation differences	(849)	*(923)*	-	-
Other movements	(63)	*334*	-	-
Net movement in funds	(6,049)	*18,017*	(6,049)	*14,838*
Total funds brought forward	138,826	*120,809*	138,826	*123,988*
Total funds carried forward	132,777	*138,826*	132,777	*138,826*

Total incoming resources for the group represent the (loss)/profit for the financial year presented in the consolidated profit and loss account.

All funds are unrestricted.

All the amounts above are in respect of continuing operations.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1998

		Notes	1998 £000	*1997 £000*
TECHNICAL ACCOUNT - GENERAL BUSINESS				
Gross premiums written - continuing operations		2(a)	204,051	*202,245*
Outward reinsurance premiums			62,977	*63,926*
Net written premiums			141,074	*138,319*
Change in the gross provision for unearned premiums			(142)	*2,435*
Change in the provision for unearned premiums, reinsurers' share			(213)	*(344)*
Change in the net provision for unearned premiums			(71)	*(2,779)*
Earned premiums, net of reinsurance			141,003	*135,540*
Claims paid	- gross amount		139,459	*105,722*
	- reinsurers' share		36,545	*23,252*
			102,914	*82,470*
Change in provision for claims	- gross amount		27,516	*31,453*
	- reinsurers' share		15,709	*8,749*
			11,807	*22,704*
Claims incurred, net of reinsurance			114,721	*105,174*
Net operating expenses		4(a)	43,777	*38,859*
Total technical charges			158,498	*144,033*
Balance on the technical account before equalisation provisions			(17,495)	*(8,493)*
Change in the equalisation provision		18	1,686	*(1,265)*
Balance on the technical account for general business			(15,809)	*(9,758)*

All the amounts above are in respect of continuing operations.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 31 December 1998

TECHNICAL ACCOUNT - LONG TERM BUSINESS

		Notes	1998	*1997 Restated*
			£000	*£000*
Earned premiums, net of reinsurance				
Gross premiums written		2(b)	19,256	*18,338*
Outward reinsurance premiums			335	*314*
			18,921	*18,024*
Investment income		3	22,400	*23,799*
Unrealised gains on investments			6,794	*25,846*
Total technical income			48,115	*67,669*
Claims paid	- gross amount		32,995	*32,878*
	- reinsurers' share		129	*132*
			32,866	*32,746*
Change in provision for claims	- gross amount		191	*(298)*
	- reinsurers' share		5	*2*
			186	*(300)*
Claims incurred, net of reinsurance			33,052	*32,446*
Change in other technical provisions				
Long term business provisions	- gross amount		11,711	*3,450*
	- reinsurers' share		771	*(12)*
			10,940	*3,462*
Technical provision for linked business			2,110	*5,541*
Change in other technical provisions, net of reinsurance			13,050	*9,003*
Net operating expenses		4(a)	4,397	*3,392*
Investment expenses and charges			693	*629*
Tax attributable to the long term business		8	1,536	*1,646*
Allocated investment return transferred to the non-technical account			2,197	*1,271*
Transfer to the fund for future appropriations			(3,514)	*17,453*
			5,309	*24,391*
Total technical charges			51,411	*65,840*
Balance on the technical account for long term business			(3,296)	*1,829*

All the amounts above are in respect of continuing operations.

Financial Statements

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 31 December 1998

NON-TECHNICAL ACCOUNT	Notes	1998 £000	*1997* *Restated* *£000*
Balance on the general business technical account		(15,809)	*(9,758)*
Balance on the long term business technical account		(3,296)	*1,829*
Tax attributable to shareholders' long term business profits		-	*821*
		(19,105)	*(7,108)*
Investment income	3	41,701	*37,137*
Unrealised (losses)/gains on investments	3	(18,591)	*7,716*
Allocated investment return transferred from the long term business technical account		2,197	*1,271*
Investment expenses and charges		(1,673)	*(1,687)*
Other operations		294	*404*
Other charges	4(b)	(2,610)	*(3,479)*
		21,318	*41,362*
Operating profit		527	*35,519*
Change in equalisation reserves		1,686	*(1,265)*
Profit on ordinary activities before tax			
- continuing operations		2,213	*34,254*
Tax on profit on ordinary activities	8	3,897	*4,909*
(Loss)/profit on ordinary activities after tax		(1,684)	*29,345*
Minority interests	16	(218)	*6,986*
(Loss)/profit for the financial year		(1,466)	*22,359*
Charitable grants		3,671	*3,753*
Retained (loss)/profit for the financial year	14	(5,137)	*18,606*

Non-equity interests included in minority interests and dividends are disclosed in note 16 to the accounts.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 December 1998

(Loss)/profit for the financial year	(1,466)	*22,359*
Currency translation differences	(849)	*(923)*
Other movements	(63)	*334*
Total recognised gains and losses for the financial year	(2,378)	*21,770*

PARENT COMPANY BALANCE SHEET
at 31 December 1998

	Notes	1998	*1997*
			Restated
		£000	*£000*
Fixed assets : investments			
Shares in group undertakings	26	128,504	*135,190*
Current assets			
Prepayments and accrued income		20	*20*
Taxation		460	*460*
Cash at bank		3,809	*3,163*
		4,289	*3,643*
Creditors			
Amounts falling due within one year :			
Other creditors		6	-
Accruals		10	*7*
Net current assets		4,273	*3,636*
Net assets		132,777	*138,826*
Reserves	14		
Revaluation reserve		128,454	*135,140*
Retained profits		4,323	*3,686*
		132,777	*138,826*

The financial statements on pages 6 to 29 were approved by the board of directors on 24 June 1999 and signed on their behalf by

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

CONSOLIDATED BALANCE SHEET
at 31 December 1998

	Notes	1998	*1997*
ASSETS		£000	*£000*
Goodwill	9,25	4,143	-
Investments	10		
Land and buildings		12,037	*9,160*
Investments in participating interests		68	*64*
Other financial investments		655,608	*647,413*
Value of long term insurance business		6,000	*6,000*
		673,713	*662,637*
Assets held to cover linked liabilities	11	25,214	*23,104*
Reinsurers' share of technical provisions			
Provision for unearned premiums		21,207	*19,562*
Long term business provision	17	2,401	*1,631*
Claims outstanding		76,147	*51,875*
		99,755	*73,068*
Debtors			
Debtors arising out of direct insurance operations	12	37,944	*34,647*
Debtors arising out of reinsurance operations		41,482	*30,857*
Other debtors		4,970	*3,542*
		84,396	*69,046*
Other assets			
Tangible assets	13	3,592	*2,386*
Cash at bank and in hand		63,291	*59,032*
		66,883	*61,418*
Prepayments and accrued income			
Accrued interest and rent		4,909	*5,591*
Deferred acquisition costs		14,137	*12,158*
Other prepayments and accrued income		5,213	*3,817*
		24,259	*21,566*
Total assets		978,363	*910,839*

CONSOLIDATED BALANCE SHEET
at 31 December 1998

LIABILITIES	Notes	1998 £000	*1997 Restated £000*
Reserves	14		
Long term business reserve		6,000	*6,000*
General reserve		10,000	*10,000*
Profit and loss account		116,777	*122,826*
		132,777	*138,826*
Minority interests	16	78,418	*82,257*
Fund for future appropriations		75,662	*79,176*
Technical provisions			
Provision for unearned premiums		82,317	*72,555*
Long term business provision	17	231,966	*220,182*
Claims outstanding		267,024	*221,895*
Equalisation provision		5,024	*6,561*
		586,331	*521,193*
Technical provisions for linked liabilities		25,214	*23,104*
Provisions for other risks and charges	19	6,140	*5,902*
Deposits received from reinsurers		1,771	*2,115*
Creditors			
Creditors arising out of direct insurance operations		3,729	*4,516*
Creditors arising out of reinsurance operations		23,096	*14,737*
Other creditors including taxation and social security	20	41,610	*35,826*
		68,435	*55,079*
Accruals and deferred income		3,615	*3,187*
Total liabilities		978,363	*910,839*

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 1998

(excluding long term business)	Notes	1998 £000	*1997 £000*
Net cash inflow from operating activities	21(a)	8,805	*36,891*
Servicing of finance			
Loan interest paid		(2,631)	*(2,824)*
Preference dividends paid		(2,309)	*(1,739)*
Other interest paid		(165)	*(106)*
Taxation paid		(651)	*(3,478)*
Capital expenditure		(916)	*(229)*
Acquisitions and disposals	25	(9,465)	*(3,966)*
Charitable grants paid		(3,682)	*(3,753)*
Financing			
Repayment of loan		-	*(5,000)*
Capital element of lease purchase rental payments		(301)	*(293)*
		(11,315)	*15,503*
Cash flows were invested as follows:			
(Decrease)/increase in cash holdings		(2,792)	*4,814*
Net portfolio investment			
Purchases of shares and other variable yield securities		66,276	*63,764*
Purchases of fixed income securities		57,171	*42,255*
Sales of shares and other variable yield securities		(68,785)	*(57,581)*
Sales of fixed income securities		(62,742)	*(37,749)*
Sales of properties		(443)	-
Net investment of cash flows		(11,315)	*15,503*
Decrease in loans		-	*5,000*
Movement arising from cash flows	21(b)	(11,315)	*20,503*
Movement in long term business		6,271	*28,697*
Acquired with subsidiary		22,039	-
Changes in market values and exchange rate effects		450	*19,910*
Total movement in portfolio investments net of financing		17,445	*69,110*
Portfolio investments net of financing 1 January 1998		722,773	*653,663*
Portfolio investments net of financing 31 December 1998	21(b)	740,218	*722,773*

Accounting Policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with Section 255A of, and Schedule 9A to, the *Companies Act 1985 and in accordance with the Charities Act 1993 and Regulation 3 of the Charities* (Accounts and Reports) Regulations 1995. The financial statements of the parent company have been prepared in accordance with Section 226 and Schedule 4 of the Companies Act 1985 and in accordance with the Charities Act 1993 and Regulation 3 of the Charities (Accounts and Reports) Regulations 1995. The financial statements have been prepared in accordance with applicable accounting standards.

The principal activities of the trading subsidiaries of the charity remain the transaction of insurance and the provision of financial services and all funds within the trading subsidiaries support their trade. As an insurance group, the consolidated financial statements are required to be prepared in accordance with Schedule 9A of the Companies Act 1985. For consistency with the requirements of Schedule 9A, the directors have followed the material recommendations of the Statement of Recommended Practice issued by the Association of British Insurers (the ABI SORP) as giving a more appropriate presentation of financial statements than the recommendations of the Statement of Recommended Practice "Accounting by Charities".

Changes in accounting policies

In accordance with the requirements of the ABI SORP the group now accounts for unrealised gains and losses on investments, together with an appropriate charge or credit for deferred taxation, in its profit and loss account. Previously unrealised gains and losses were accounted for through a revaluation reserve, and no provision was made for deferred taxation. Comparative amounts have been restated, and the effects of these changes in accounting policies are disclosed in note 14.

Basis of consolidation

The assets, liabilities and results of subsidiary undertakings are included in the consolidated financial statements using audited accounts made up to 31 December.

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 reserves as being outside the company's normal trading activities. Exchange profits and losses which arise from normal trading activities are taken to the non-technical account.

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 during 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, gross of commission payable to intermediaries, 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 commenced 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 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 for 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 it is anticipated, on the basis of information available at the balance sheet date, that 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.

Accounting Policies

Claims incurred
Claims incurred comprise all claim payments and internal and external settlement expense payments made in the financial year and the movement in the provisions for outstanding claims and settlement expenses, including claims incurred but not reported. Outward reinsurance recoveries are accounted for in the same period as the claims for the related direct or inwards reinsurance business being reinsured.

Claims outstanding
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, salvage and other recoveries and settlement trends. A provision for claims incurred but not reported is established on statistical methods by the general business actuary. Any differences between provisions and subsequent settlements are dealt with in the technical accounts of later years.

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.

Equalisation provisions
Provision is made in the group accounts for the equalisation provision required by the Insurance Companies (Reserves) Act 1995. It is required by Schedule 9A to the Companies Act 1985 to be included within technical provisions in the balance sheet even though no actual liability exists at the balance sheet date.

Long term business technical account
Premiums
Premiums 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 or the technical 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 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 company'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 premium margins. This has been determined by means of the Zillmer adjustment applied to the net premium valuation basis. This adjusted basis is referred to as the modified statutory solvency basis. The consequent long term business provision is grossed up for the impact of reinsurance.

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 equity investments at directors' valuation. Mortgages, loans and other fixed interest securities are valued at amortised cost. Land and buildings are stated at open market value as determined by independent qualified surveyors.

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.

In the parent company balance sheet investments in subsidiary undertakings are stated at the lower of net asset value or directors' valuation. The surplus or deficit over cost arising from that valuation is taken to revaluation reserve.

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 cost. The movement in unrealised gains or losses includes an adjustment for previously recognised unrealised gains or losses on investments disposed of in the accounting period. General business unrealised gains and losses are dealt with through the non-technical account. 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 and unrealised gains on investments where there is a reasonable probability that such taxation will become payable in the foreseeable future. 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 properties	50 years

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 represents the difference between the cost and the fair value of assets and liabilities acquired. Goodwill arising subsequent to 31 December 1997 is capitalised in the balance sheet at cost and amortised through the profit and loss account over its useful economic life on a straight-line basis. The gain or loss on any subsequent disposal of subsidiary or associated undertaking will include any attributable unamortised goodwill.

Notes to the Accounts

1 Exchange rates

The principal rates of exchange used for translation are:

	1998	*1997*
United States of America	US$1.66	*US$1.65*
Canada	C$2.35	*C$2.35*
Republic of Ireland	IR£1.12	*IR£1.15*
Australia	AUS$2.71	*AUS$2.53*

2 Segmental analysis

(a) General business premiums

	1998		*1997*	
	Gross £000	Net £000	*Gross £000*	*Net £000*
Direct:				
Accident	3,916	3,830	*3,853*	*3,700*
Motor	32,415	25,910	*24,786*	*22,491*
Property	101,495	62,066	*109,460*	*65,006*
Liability	18,255	15,365	*18,673*	*17,133*
	156,081	107,171	*156,772*	*108,330*
Reinsurance accepted and London market	47,970	33,903	*45,473*	*29,989*
Total	204,051	141,074	*202,245*	*138,319*
Geographical analysis - on the basis of location of office				
United Kingdom	157,331	111,097	*158,909*	*106,609*
North America	42,631	27,087	*40,022*	*29,311*
Other overseas	4,089	2,890	*3,314*	*2,399*
Total	204,051	141,074	*202,245*	*138,319*

(b) Long term business premiums

Geographical analysis - on the basis of location of office

	1998 Gross £000	1998 Net £000	*1997 Gross £000*	*1997 Net £000*
United Kingdom	19,256	18,921	*18,338*	*18,024*

2 Segmental analysis (continued)

The analysis of long term business premiums written before reinsurance is :	1998 £000	*1997 £000*
Life insurance business		
- Single premiums	109	*59*
- Regular premiums	7,152	*7,072*
Annuity business		
- Single premiums	6,040	*4,561*
Pension business		
Non-linked contracts		
- Single premiums	454	*735*
- Regular premiums	1,943	*2,300*
Linked contracts		
- Single premiums	493	*550*
- Regular premiums	2,848	*2,857*
PHI business	216	*204*
Endowment certain business	1	-
	19,256	*18,338*

Gross new annualised regular premiums		
Life insurance	785	*605*
Pensions	577	*574*
	1,362	*1,179*

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		*Restated*
United Kingdom	15,802	*14,810*
North America	(2,113)	*(1,314)*
Other overseas	(133)	*(239)*
	13,556	*13,257*
Unrealised investment gains and losses and the net realised gains of the investment trust subsidiary	(8,047)	*18,347*
Profit on general business	5,509	*31,604*
(Loss)/profit on long term business	(3,296)	*2,650*
	2,213	*34,254*

(d) Net assets		*Restated*
United Kingdom	115,554	*117,780*
North America	6,845	*7,209*
Other overseas	239	*402*
General business	122,638	*125,391*
Long term business	10,139	*13,435*
	132,777	*138,826*

All long term business is written in the United Kingdom.

3 Investment income and unrealised gains

	1998		1997 Restated	
	General business £000	Long term business £000	*General business £000*	*Long term business £000*
Investment income:				
- land and buildings	318	727	*407*	*721*
- other investments	20,845	17,165	*21,542*	*17,678*
- group undertakings	-	258	*-*	*243*
Realised investment gains	10,883	4,250	*4,819*	*5,157*
Realised investment gains of investment trust subsidiary	9,655	-	*10,369*	*-*
	41,701	22,400	*37,137*	*23,799*
Unrealised gains/(losses):				
Losses of investment trust subsidiary	(18,809)	-	*(2,022)*	*-*
Other gains and losses	218	6,794	*9,738*	*25,846*
	(18,591)	6,794	*7,716*	*25,846*

4 Expenses

	1998		1997	
	General business £000	Long term business £000	*General business £000*	*Long term business £000*
(a) Net operating expenses				
Commission paid on direct business	32,681	41	*31,446*	*35*
Other acquisition costs	15,614	2,261	*15,406*	*1,394*
Change in deferred acquisition costs	(167)	(46)	*(435)*	*65*
Administrative expenses	13,468	2,162	*11,687*	*1,923*
Reinsurance commissions and profit participation	(17,819)	(21)	*(19,245)*	*(25)*
	43,777	4,397	*38,859*	*3,392*

The group has incurred the following amounts in respect of:

Depreciation :	- property	17	-	*17*	*-*
	- owned assets	468	103	*425*	*89*
	- leased assets	(16)	(20)	*21*	*35*
Auditors' remuneration :	- UK	96	26	*131*	*29*
	- overseas	143	-	*140*	*-*
	- fees for non-audit services	85	-	*115*	*-*
Interest payments under lease purchase contracts		108	25	*106*	*24*

Depreciation on leased assets is net of surpluses and deficits arising on the surrender of leases.

(b) Other charges				
Debenture interest	780	-	*780*	*-*
Corporate business loan interest	860	-	*1,237*	*-*
Corporate expenditure	960	-	*1,462*	*-*
Amortisation of goodwill	10	-	*-*	*-*
	2,610	-	*3,479*	*-*

(c) Depreciation on land and buildings

Aggregate depreciation on land and buildings occupied by the group was £574,000 (£543,000) and for those occupied by the parent company £560,000 (£543,000).

5	Employee information	1998		1997	
	The average weekly number of employees, including executive directors, during the year by geographical location was :	**General business No.**	**Long term business No.**	*General business No.*	*Long term business No.*
	United Kingdom	750	65	*709*	*59*
	North America	66	-	*62*	-
	Republic of Ireland	15	-	*14*	-
		831	65	*785*	*59*
		£000	£000	*£000*	*£000*
	Wages and salaries	14,695	1,504	*14,021*	*1,261*
	Social security costs	1,022	116	*1,008*	*110*
	Other pension costs	1,814	183	*2,232*	*201*
		17,531	1,803	*17,261*	*1,572*

6	Directors' emoluments	1998 £	*1997 £*
	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:	92,586	*60,500*
	The chairman received no emoluments.		
	Highest paid director's fees	43,186	*35,000*

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 an independent 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 investments 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 increases, no allowance was made for pension increases as these are separately funded by the company.

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. Pension liabilities of the Canadian branch are dealt with by payment to a Canadian Trustee Fund, and pension liabilities for the Republic of Ireland branch are dealt with by payment to an Irish life office. The total funding costs for the year was £1,997,000 (£2,433,000). Of this £1,836,000 (£2,117,000) related to the UK scheme.

The Ansvar group of companies operate separate schemes to the main group scheme. In the Republic of Ireland the non-contributory defined contribution scheme is now paid up. In the UK the company operates a non-contributory defined benefit scheme, the contributions to which are determined with the advice of independent qualified actuaries on the basis of triennial valuations using the attained age method. Contributions remain at 15% of pensionable salary. It is assumed that there will be a 2.25% margin between investment return and salary growth. The latest valuation of the scheme was as at 31 December 1996, when the market value of the assets, at £2,026,000, represented 102% of the benefits that had accrued to members. In Australia, Ansvar operate a defined contribution plan that complies with the Occupational Superannuation Standards Act. Employees contribute at a rate of 5% of basic salary, and the company at a rate of 9%.

8 Taxation

	Long term business technical account		Non-technical account	
	1998	*1997*	1998	*1997*
	£000	*£000*	£000	*£000*
UK Corporation tax at 31.0% (31.5%)	340	*663*	2,969	*1,042*
Tax on franked investment income	1,214	*967*	1,165	*1,229*
Overseas tax	17	*16*	(337)	*152*
Deferred tax	-	-	99	*1,663*
Share of associated undertaking's tax	-	-	1	*2*
Tax attributable to shareholders' long term business profits	-		-	*821*
Adjustment in respect of prior years	(35)	-	-	-
	1,536	*1,646*	3,897	*4,909*

Realised and unrealised investment gains and losses of the investment trust subsidiary are not subject to taxation. The absence of relief for its net £9,154,000 investment loss during the year, together with a £3,296,000 loss transferred from the long term business technical account, are the main reasons for the disproportionately high charge for taxation in the non-technical account.

9 Goodwill

Goodwill arising on the subsidiary undertakings purchased during the year is as follows:	£000
Goodwill arising on acquisitions	4,153
Amortisation during the year	10
Balance carried forward 31 December 1998	4,143

Goodwill is amortised over its estimated useful economic life.Useful economic lives have been determined in respect of each acquisition to match the period over which the value of the underlying businesses will exceed their identifiable net assets. No useful economic lives are in excess of 20 years (see also note 25).
The cumulative amount of negative goodwill previously eliminated against profit and loss reserve and not reinstated in the balance sheet is £350,000 (£350,000).

10 Investments at current value

	1998			*1997*		
	General business £000	Long term business £000	Total £000	*General business £000*	*Long term business £000*	*Total £000*
Freehold land and buildings						
- occupied by the group	2,733	-	2,733	*767*	-	*767*
- other	1,955	7,349	9,304	*1,488*	*6,905*	*8,393*
	4,688	7,349	12,037	*2,255*	*6,905*	*9,160*
Other financial investments						
Shares and other variable yield securities and units in unit trusts:						
- UK stock exchange listed	210,480	167,769	378,249	*211,515*	*164,361*	*375,876*
- unlisted	112	525	637	*217*	*530*	*747*
	210,592	168,294	378,886	*211,732*	*164,891*	*376,623*

10 Investments at current value (continued)

	1998 General business £000	1998 Long term business £000	1998 Total £000	*1997 General business £000*	*1997 Long term business £000*	*1997 Total £000*
Debt and other fixed income securities:						
- UK stock exchange listed	150,267	50,948	201,215	*141,559*	*51,068*	*192,627*
- unlisted	371	557	928	*348*	*360*	*708*
Loans secured by mortgages	16,240	57,843	74,083	*15,717*	*61,205*	*76,922*
Other loans	67	429	496	*83*	*450*	*533*
	166,945	109,777	276,722	*157,707*	*113,083*	*270,790*
Total	377,537	278,071	655,608	*369,439*	*277,974*	*647,413*
Debt securities and fixed income securities valued at amortised cost						
Cost	125,172	42,832	168,004	*125,410*	*48,100*	*173,510*
Cumulative amortisation	18	(744)	(726)	*(267)*	*(639)*	*(906)*
Current value	125,190	42,088	167,278	*125,143*	*47,461*	*172,604*
Unamortised maturity value	(2,130)	(522)	(2,652)	*(9)*	*(1,567)*	*(1,576)*
Maturity value	123,060	41,566	164,626	*125,134*	*45,894*	*171,028*
Market value	136,610	50,278	186,888	*133,684*	*51,920*	*185,604*

The value of the group's investments at historical cost is £499,646,000 (£476,083,000).

Freehold land and buildings were valued at 31 December 1997. Owner occupied properties were valued at market value based on vacant possession. Other properties were valued on an open market existing use basis.

11 Assets held to cover linked liabilities

	1998 Current value £000	1998 Historical cost £000	*1997 Current value £000*	*1997 Historical cost £000*
Assets held to cover linked liabilities	25,214	18,214	*23,104*	*15,953*

12 Debtors

Group debtors arising out of direct insurance operations

	1998 General business £000	1998 Long term business £000	1998 Total £000	*1997 General business £000*	*1997 Long term business £000*	*1997 Total £000*
Policyholders	13,575	2,047	15,622	*11,919*	*1,699*	*13,618*
Intermediaries	22,322	-	22,322	*21,029*	*-*	*21,029*
	35,897	2,047	37,944	*32,948*	*1,699*	*34,647*

13 Tangible assets

	£000
Cost:	
At 1 January 1998	11,035
Additions	2,510
Disposals	(769)
At 31 December 1998	12,776
Depreciation :	
At 1 January 1998	8,649
Additions	1,058
Disposals	(523)
At 31 December 1998	9,184
Net book value 31 December 1998	
General business	3,085
Long term business	507
	3,592
Net book value 1 January 1998	
General business	1,956
Long term business	430
	2,386

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

14 Reserves

	Revaluation and other reserves £000	Long term insurance business reserve £000	General reserve £000	Profit and loss account £000	Total £000
Group					
As previously reported	78,494	6,000	10,000	42,794	137,288
Prior year adjustment	(78,494)	-	-	80,032	1,538
Restated 1 January 1998	-	6,000	10,000	122,826	138,826
Currency translation differences	-	-	-	(849)	(849)
Other movements	-	-	-	(63)	(63)
Transfer from profit and loss account	-	-	-	(5,137)	(5,137)
Balance 31 December 1998	-	6,000	10,000	116,777	132,777
Parent					
As previously reported	133,602	-	-	3,686	137,288
Prior year adjustment	1,538	-	-	-	1,538
Restated 1 January 1998	135,140	-	-	3,686	138,826
Revaluation of investments	(6,686)	-	-	-	(6,686)
Transfer from profit and loss account	-	-	-	637	637
Balance 31 December 1998	128,454	-	-	4,323	132,777

Included in the group profit and loss account are £73,295,000 (£80,032,000) of unrealised investment gains which the directors do not regard as distributable.

The prior year adjustment arises as a result of the change in accounting policy requiring all investment gains to be accounted for in the profit and loss account, with the exception of shares in group undertakings and participating interests which are disclosed in the parent company balance sheet at current value.The effect of this change is to reduce the current year's group profit before taxation by £8,047,000 (£18,347,000 increase) and increase the cumulative group profit and loss account at 31 December 1997 by £80,032,000.

15 Reconciliation of movements in group shareholders' funds

	1998	*1997*
		Restated
	£000	*£000*
(Loss)/profit for the financial year	(1,466)	*22,359*
Other recognised gains and losses	(912)	*(589)*
	(2,378)	*21,770*
Charitable grants net of tax relief	(3,671)	*(3,753)*
Net movement in shareholders' funds	(6,049)	*18,017*
Opening shareholders' funds	138,826	*119,437*
Restatement	-	*1,372*
Closing shareholders' funds	132,777	*138,826*

16 Minority interests

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

	Profit and Loss Account		Balance Sheet	
	1998	*1997*	1998	*1997*
		Restated		
	£000	*£000*	£000	*£000*
Equity interests				
St Andrew Trust plc				
Ordinary shares of £1 each	(2,535)	*5,247*	51,575	*55,911*
Chatham Holdings Inc.				
Non-equity interests				
Ecclesiastical Insurance Office plc				
2.8% First Cumulative Preference shares of £1 each	2	*3*	92	*95*
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	2,006	*1,427*	23,509	*23,009*
St Andrew Trust plc				
5.25% Cumulative Preference stock (now 3.675% plus tax credit)	9	*9*	242	*242*
	(218)	*6,986*	78,418	*82,257*

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
1999 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.

17 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		1998 %	*1997 %*
Assurances:			
Life		2.5 - 3.0	*2.5 - 4.0*
Pensions		3.0	*3.0*
Annuities:			
With profit	- deferred	2.5 - 3.5	*2.5 - 4.5*
Without profit	- deferred	3.5 - 3.75	*3.5 - 5.25*
	- vested	4.0 - 5.0	*5.5 - 7.0*

(b) Mortality tables			
Assurances		A67 - 70	*A67 - 70*
Deferred annuities	- pensions	PA (90)	*PA (90)*
	- school fees	no mortality	*no mortality*
Vested annuities	- pensions	PA (90)	*PA (90)*
	- other	a (90)	*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.

18 Equalisation provision

The equalisation reserve, established in accordance with the Insurance Companies (Reserves) Act 1995, is required by Schedule 9A to the Companies Act 1985 to be included within technical provisions, notwithstanding that it does not represent a liability at the balance sheet date. It is in addition to the provisions required to meet the anticipated ultimate cost of settling outstanding claims at the balance sheet date.

The amount included in the balance sheet relates entirely to the statutory provision (£4,561,000). In the general business technical account there is a £314,000 charge in respect of the statutory provision and a release of £2,000,000 from a previously maintained non-statutory claims equalisation reserve.

19 Provisions for other risks and charges

The provision shown in the accounts relates to deferred taxation in respect of short term timing differences and on unrealised investment gains that are expected to arise in the foreseeable future. Included in the balance sheet at 31 December 1998 is an amount of £98,000 in respect of a subsidiary undertaking acquired during the financial year.

Deferred taxation on unrealised investment gains not provided for in the accounts amounted to £5,791,000 (£5,662,000).

20 Other creditors including taxation and social security

	1998 £000	*1997 £000*
Amounts falling due within one year:		
Other creditors	8,227	*4,637*
Taxation	4,405	*2,451*
	12,632	*7,088*
Amounts falling due after more than one year:		
Debenture stock	6,000	*6,000*
Corporate business loans	22,000	*22,000*
Other creditors	978	*738*
	28,978	*28,738*
Total	41,610	*35,826*
Included in other creditors are obligations under lease purchase contracts due:		
In 1 year or less	431	*384*
Between 2 and 5 years	967	*734*
Over 5 years	11	*4*
	1,409	*1,122*

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 within 5 years.

21 Notes to the cash flow statement

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

	1998 £000	*1997 £000*
Profit on ordinary activities before tax	2,213	*34,254*
Depreciation charges	469	*463*
Amortisation of fixed interest securities	516	*(89)*
Unrealised gains on investments	17,702	*(7,978)*
Increase in net general insurance provisions	7,867	*26,234*
Loss/(profit) relating to long term business	3,296	*(2,650)*
Share of profits of associates	(5)	*(5)*
Tax on franked investment income	(1,150)	*(1,232)*
Loan interest payable	2,631	*2,824*
Lease purchase interest payable	165	*106*
Loss/(profit) on sales of tangible fixed assets	11	*(22)*
Realised investment gains	(20,817)	*(15,317)*
Movements in debtors less creditors	(4,093)	*303*
	8,805	*36,891*

21 Notes to the cash flow statement (continued)

(b) Movements in cash, portfolio investments and financing

	At 1 January 1998 £000	Cash flow £000	Acquired with subsidiaries £000	Changes in long term business £000	Changes in market value and exchange £000	At 31 December 1998 £000
Cash at bank and in hand	59,032	(2,792)	3,576	3,620	(145)	63,291
Shares and other variable yield securities	376,687	(2,509)	5,972	97	(1,293)	378,954
Fixed income securities	270,790	(5,571)	9,713	-	1,790	276,722
Land and buildings	9,160	(443)	2,778	444	98	12,037
Assets held to cover linked liabilities	23,104	-	-	2,110	-	25,214
Borrowing due after 1 year	(16,000)	-	-	-	-	(16,000)
	722,773	(11,315)	22,039	6,271	450	740,218

22 Operating Leases

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

	1998 Premises £000	1998 Equipment £000	*1997 Premises £000*	*1997 Equipment £000*
Commitments				
Expiring:				
Within 1 year	198	3	*16*	-
Between 2 and 5 years	598	589	*219*	*558*
Over 5 years	1,279	-	*1,200*	-
	2,075	592	*1,435*	*558*
Payments included in operating expenses	1,610	557	*1,709*	*475*

23 Capital commitments

At 31 December 1998 outstanding contracts for capital expenditure amounted to £1,111,000 (Nil).

24 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 related party transactions consisting of £978,000 (£1,116,000) school fee annuities were accounted for by the group to Beaufort House Trust Limited, a charity under common control and registered at the same address. Of this £278,000 (£350,000) was prepaid at the balance sheet date. This has been accounted for in the long term business technical account.

25 Purchase of subsidiary undertakings

On 15 December 1998 Ecclesiastical Insurance Office plc acquired the entire equity share capital of Ansvar Insurance Company Limited, incorporated in Great Britain and Ansvar (Australia) Insurance Limited, incorporated in Australia, and on 31 March 1998 the company acquired the entire equity share capital of Hinton & Wild (Home Plans) Limited, incorporated in Great Britain.

There were no material differences between the provisional fair values of assets and liabilities and the net book values acquired. The position will be reviewed during 1999.

The acquisitions were accounted for by the acquisition method.

The results of the entities acquired for the period 1 January 1998 to the dates of their acquisition and for the year ended 31 December 1997 were as follows:

	1998 £000	*1997 £000*
Earned premiums, net of reinsurance	14,195	*14,778*
Operating profit	543	*1,064*
Change in equalisation provision	(75)	*(73)*
Profit on ordinary activities before tax	468	*991*
Tax on profit on ordinary activities	338	*409*
Retained profit for the financial period	130	*582*
Profit for the financial period	130	*582*
Currency translation differences	(12)	*(109)*
Total recognised gains and losses for the financial period	118	*473*

The identifiable assets and liabilities of the entities acquired at the date of acquisition, were as follows:

	Hinton & Wild £000	Ansvar £000
Investments	-	18,463
Debtors	106	4,218
Other assets	1	2,717
Cash at bank	68	3,508
Net technical provisions	-	(18,028)
Creditors	(23)	(2,693)
Net assets	152	8,185
Goodwill arising on acquisition	60	4,093
Total consideration	212	12,278
Total consideration comprised:		
Cash	212	11,625
Attributable acquisition costs	-	653
	212	12,278

During the year the Ecclesiastical Insurance Office plc also acquired further shares in subsidiaries for a consideration of £551,000. The fair value is equal to the net book value of assets acquired.

Analysis of net cash outflow in respect of the purchases	**£000**
Total consideration	13,041
Cash at bank and in hand acquired	3,576
	9,465

The companies made no significant contribution to the group's net operating cash flow during the financial year.

Subsidiary and Associated Undertakings

26 Subsidiary and associated undertakings	Share capital	Holdings of shares by: Parent	Subsidiaries
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%
Allchurches Investment Management Services Limited	Ordinary shares		100%
Allchurches Life Assurance Limited	Ordinary shares		100%
Ansvar Conference Services Limited	Ordinary shares		100%
Ansvar Insurance Company Limited	Ordinary shares		100%
Ansvar Insurance Agency Limited	Ordinary shares		100%
Ansvar Pensions Limited	Ordinary shares		100%
Blaisdon Properties Limited	Ordinary shares		100%
Crusade Services (Insurance Brokers) Limited	Ordinary shares		100%
Eccint Limited	Ordinary shares		100%
Ecclesiastical Insurance Office plc	Ordinary shares		100%
	2.8% First Cumulative Preference shares		63.3%
	9.5% Redeemable Third Non-Cumulative Preference shares		100%
	8.625% Non-Cumulative Irredeemable Preference shares		6%
Ecclesiastical Group Asset Management Limited	Ordinary shares		100%
Ecclesiastical Underwriting Management Limited	Ordinary shares		100%
Hinton & Wild (Home Plans) Limited	Ordinary shares		100%
The Churches Purchasing Scheme Limited	Ordinary shares		100%
Incorporated and operating in Great Britain, engaged in investment trust business:			
St Andrew Trust plc	Ordinary shares		62.1%
	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%
Incorporated and operating in Australia, engaged in insurance business:			
EIG - Ansvar Limited	Ordinary shares		100%
Incorporated and operating in New Zealand, engaged in insurance business:			
EIG - Ansvar Insurance (New Zealand) Limited	Ordinary shares		100%
EIG - Ansvar Life Limited	Ordinary shares		100%
Responsible Nominees Propriety Limited	Ordinary shares		100%
Associated undertaking			
Incorporated and operating in Great Britain, engaged in insurance business:			
Wright Underwriting Group Limited	Ordinary shares		25%

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

All the subsidiaries listed are included within the consolidated financial statements. Voting rights are in line with the holdings of ordinary shares.

Of the 62.1% holding of Ordinary shares in St Andrew Trust plc, 5.8% is held by the mutual life fund of Ecclesiastical Insurance Office plc.