104374 2

31 December

# Report & 99 accounts



ALLCHURCHES TRUST

LIMITED

# Directors

| | |
|---|---|
| Directors | Sir Alan McLintock CA (Chairman)<br>The Rt. Hon. the Viscount Churchill MA<br>M. R. Cornwall-Jones MA, ACIS<br>B. V. Day OBE, BA, LLB, FCII<br>Mrs S. Homersham<br>The Rt. Revd. D. G. Snelgrove TD, MA, DD<br>W. H. Yates FRICS |
| Registered and Head Office | Beaufort House,<br>Brunswick Road,<br>Gloucester GL1 1JZ<br>Tel : 01452 528533 |
| Company Registration Number | 1043742 |
| Charity Registration Number | 263960 |
| Auditors | Deloitte & Touche,<br>Stonecutter Court,<br>1 Stonecutter Street,<br>London EC4A 4TR |

# Directors' Report

The directors present their report and review together with the audited accounts for the year ended 31 December 1999.

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. As will be seen, the maintenance of the high level of grants from our principal trading subsidiary, Ecclesiastical Insurance Office plc, has enabled the Trust to continue the support it gives to the church and other charitable institutions through grants totalling £4 million in the year. A summary of the distributions made follows later in this Report.

Amidst highly competitive and rapidly changing market conditions throughout 1999, Ecclesiastical has made good progress with a wide range of initiatives that are intended to position its business for successful development into the twenty first century. Although 1999 was another difficult year for insurance underwriters, Ecclesiastical's financial strength was none the less enhanced. This was due to another strong return from investments and some small improvement in the underlying performance of general insurance operations. Importantly, two structural changes were also made to the shape of the business - namely the reconstruction and subsequent liquidation of St Andrew Trust in September and the sale of Chatham Holdings Inc. in the USA.

The statement of financial activities shows a substantial increase in the group's total incoming resources. As was indicated in the Directors' Report last year, the requirement under the ABI statement of recommended practice on accounting for insurance business to include in the Consolidated Profit and Loss Account volatile movements in unrealised gains or losses on our investment portfolio was likely to lead to some misleading comparisons. This year, stock markets have moved in our favour.

From the detailed figures on page 9, it will be seen that there was a total underwriting loss of £19.5 million (loss £15.8 million) offset in part by a positive balance on the long term business account. There was also a healthy improvement in the total investment return to £61.5 million (£20.1 million); a loss of £6.1 million (loss £2.9 million) from discontinued operations (Chatham Holdings); an increased provision for tax of £11.5 million of which £10.5 million is deferred tax mainly arising from the reconstruction of St Andrew and finally a charge of £12.8 million representing the elimination from our accounts of the minority interests.

Stripping out unrealised capital gains and the impact of the St Andrew reconstruction, there was a small diminution in profit but this outcome is not regarded as unsatisfactory given the significant cost that has been borne in terminating our interest in Chatham and the generally difficult market conditions we have faced.

Premium growth in general insurance was quite strong at 15% influenced by the inclusion of results of our new subsidiaries acquired from the Ansvar Group in 1998. We believe we have made good progress in establishing an appropriate control framework and we are grateful to the local boards and management teams in all of our overseas operations for their support in this process.

The management agreements with both the Baptist Insurance Company PLC and Methodist Insurance PLC which were referred to in the last accounts are progressing well. We value the relationships that have been established and the trust that has been placed in us to manage and develop their insurance businesses on a professional basis.

Our mission continues to be focussed on providing high standards of service and on the generation of profits from all our operations from which increased grants can be made. Though itself unaltered, that mission is being pursued in times of unparalleled change. To ensure that we can continue to prosper in this challenging environment, a thorough strategic review was undertaken during the year. We remain committed to developing our business activities in both general insurance and financial services and we are implementing plans to improve the profitability and market position of all operating units. We are also making the necessary investment in new technology to help us improve and develop customer relationships.

We face considerable change in the methods and standards of control now expected by regulators from those with responsibility for the management of financial services organisations and charities.

#### Results and review - cont.

The higher standards of control now demanded sit comfortably with the Trust's philosophy towards all aspects of its business activities. Hand in hand with our mission to support the Church goes a commitment to act with integrity in our dealings with all of our stakeholders whether they be customers, members of our staff, business partners, or the community at large. We value the high reputation that the Trust enjoys and are working to express in our corporate policies the substance of our beliefs.

#### Distributions

During the course of the year charitable distributions amounting to £4,013,830 (1998: £3,636,200) were paid by the company as follows:

| | Distributions £ | Donations No. |
|---|---|---|
| Church of England dioceses and parishes | 3,271,270 | 321 |
| Cathedrals | 232,020 | 53 |
| Other church and charitable bodies | 510,540 | 350 |
| | 4,013,830 | 724 |

Due to its extensive nature, an analysis of these distributions is included in a separate publication, a copy of which can be obtained by writing to the company secretary at the address of the registered office shown on page 1. During the last five years a total of £18.7 million has been provided by group companies for church and charitable purposes.

It is the company's policy not to make political donations.

#### Reserving policy

The source of the Trust's income is derived from a cyclical industry. The directors nevertheless believe that it is desirable so far as possible to maintain stability of charitable distributions. In order to provide this stability it is their policy to retain, in reserve, funds at a level equivalent to the amount actually distributed in the previous financial year.

The total amount available for charitable distribution at the end of the year was £4,532,000.

#### 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 Sir Alan McLintock and Mr W. H. Yates 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 31.12.1999 | *Interest at 1.1.1999* |
|---|---|---|
| Sir Alan McLintock | 500 | *500* |
| The Rt. Hon. the Viscount Churchill | - | - |
| M. R. Cornwall-Jones | 500 | *500* |
| B. V. Day | 3220 | *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.

Statement of directors' responsibilities - cont.

In preparing those financial statements, the directors are required to select suitable accounting policies and apply them consistently and make reasonable and prudent judgements and estimates. 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.

Employees

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.

Allchurches Trust Limited itself has no direct employees.

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 1999, calculated in accordance with Schedule 7 of the Companies Act 1985, was 22.9 days (1998: 13.5 days).

Year 2000

The group invested substantial time and resources in preparing for the impact of year 2000 issues and, as a consequence, no significant problems were encountered. Following their initial review, the directors continue to be alert to the potential risks and uncertainties surrounding the year 2000 issue. As at the date of this report, the directors are not aware of any significant factors which have arisen, or that might arise, which will affect the activities of the business; however the situation is still being monitored. Any future costs associated with this issue cannot be quantified but are not expected to be significant.

Introduction of the euro

The group conducts a small amount of business in the euro zone and has established an EMU project to address the issues arising from the introduction of the euro. The cost of internal resources used has not been separately identified, but is not considered to be 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

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*

29 June 2000

# Auditors' Report

To the members of Allchurches Trust Limited

We have audited the financial statements on pages 6 to 30 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 1999, 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 1999 and of the profit 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

Deloitte & Touche
*Chartered Accountants and Registered Auditors*

Stonecutter Court,
London
EC4A 4TR
25 July 2000

## STATEMENT OF FINANCIAL ACTIVITIES

*for the year ended 31 December 1999*

| | | Charity | | Group | |
|---|---|---|---|---|---|
| | | 1999 | *1998* | 1999 | *1998* |
| | | £000 | *£000* | £000 | *£000* |
| **Incoming resources** | | | | | |
| Gift aid from a subsidiary undertaking | | 4,000 | *4,000* | - | - |
| Deposit interest | | 225 | *274* | 225 | *274* |
| Profit(loss) from trading subsidiaries | - continuing operations | - | - | 25,825 | *1,162* |
| | - discontinued operations | - | - | (6,130) | *(2,902)* |
| Total incoming resources | | 4,225 | *4,274* | 19,920 | *(1,466)* |
| **Resources expended** | | | | | |
| Direct charitable expenditure: charitable grants | | 4,013 | *3,636* | 4,048 | *3,671* |
| Other expenditure: management and administration | | 3 | *1* | - | - |
| | | 4,016 | *3,637* | 4,048 | *3,671* |
| Net incoming(outgoing) resources for the year | | 209 | *637* | 15,872 | *(5,137)* |
| **Other recognised gains and losses** | | | | | |
| Movement in revaluation reserve | | 17,898 | *(6,686)* | - | - |
| Currency translation differences | | - | - | 2,198 | *(849)* |
| Other movements | | - | - | 37 | *(63)* |
| Net movement in funds | | 18,107 | *(6,049)* | 18,107 | *(6,049)* |
| Total funds brought forward | | 132,777 | *138,826* | 132,777 | *138,826* |
| Total funds carried forward | | 150,884 | *132,777* | 150,884 | *132,777* |

*Total incoming resources for the group represent the profit/(loss) before charitable grants for the financial year presented in the consolidated profit and loss non-technical account.*

*Total funds carried forward represents the reserves as held by the group at the year end as presented in the consolidated balance sheet.*

*All funds are unrestricted.*

CONSOLIDATED PROFIT AND LOSS ACCOUNT

*for the year ended 31 December 1999*

TECHNICAL ACCOUNT - GENERAL BUSINESS

| | | Notes | 1999 £000 | *1998 £000* |
|---|---|---|---|---|
| Gross premiums written | - continuing operations | 2(a) | 216,934 | *176,388* |
| | - discontinued operations | 25 | 18,713 | *27,663* |
| | | | 235,647 | *204,051* |
| Outward reinsurance premiums | | | 68,718 | *62,977* |
| Net premiums written | | | 166,929 | *141,074* |
| Change in the gross provision for unearned premiums | | | 4,170 | *(142)* |
| Change in the provision for unearned premiums, reinsurers' share | | | (849) | *(213)* |
| Change in the net provision for unearned premiums | | | (5,019) | *(71)* |
| Earned premiums, net of reinsurance | | | 161,910 | *141,003* |
| Claims paid | - gross amount | | 164,360 | *139,459* |
| | - reinsurers' share | | 42,316 | *36,545* |
| | | | 122,044 | *102,914* |
| Change in provision for claim | - gross amount | | 6,450 | *27,516* |
| | - reinsurers' share | | (264) | *15,709* |
| | | | 6,714 | *11,807* |
| Claims incurred, net of reinsurance | | | 128,758 | *114,721* |
| Net operating expenses | | 4(a) | 54,329 | *43,777* |
| Total technical charges | | | 183,087 | *158,498* |
| Balance on the technical account before equalisation provisions | | | (21,177) | *(17,495)* |
| Change in the equalisation provision | | 18 | 1,724 | *1,686* |
| Balance on the technical account for general business | | | (19,453) | *(15,809)* |

CONSOLIDATED PROFIT AND LOSS ACCOUNT
*for the year ended 31 December 1999*

| | | Notes | 1999 £000 | *1998 Restated £000* |
|---|---|---|---|---|
| **TECHNICAL ACCOUNT - LONG TERM BUSINESS** | | | | |
| Earned premiums, net of reinsurance | | | | |
| Gross premiums written | | 2(b) | 19,967 | *19,256* |
| Outward reinsurance premiums | | | 301 | *335* |
| | | | 19,666 | *18,921* |
| Investment income | | 3 | 22,392 | *21,156* |
| Unrealised gains on investments | | 3 | 22,865 | *6,794* |
| Total technical income | | | 64,923 | *46,871* |
| Claims paid | - gross amount | | 37,545 | *32,995* |
| | - reinsurers' share | | 169 | *129* |
| | | | 37,376 | *32,866* |
| Change in provision for claims | - gross amount | | (152) | *191* |
| | - reinsurers' share | | 32 | *5* |
| | | | (184) | *186* |
| Claims incurred, net of reinsurance | | | 37,192 | *33,052* |
| Change in other technical provisions | | | | |
| Long term business provisions | - gross amount | | (5,110) | *11,711* |
| | - reinsurers' share | | (426) | *771* |
| | | | (4,684) | *10,940* |
| Technical provision for linked business | | | 4,108 | *2,110* |
| Change in other technical provisions, net of reinsurance | | | (576) | *13,050* |
| Net operating expenses | | 4(a) | 4,674 | *4,397* |
| Investment expenses and charges | | | 796 | *693* |
| Tax attributable to the long term business | | 8 | 986 | *322* |
| Allocated investment return transferred to the non-technical account | | | 1,799 | *2,167* |
| Transfer to the fund for future appropriations | | | 18,592 | *(3,514)* |
| | | | 26,847 | *4,065* |
| Total technical charges | | | 63,463 | *50,167* |
| Balance on the technical account for long term business | | | 1,460 | *(3,296)* |

*All the amounts above are in respect of continuing operations.*

CONSOLIDATED PROFIT AND LOSS ACCOUNT
*for the year ended 31 December 1999*

| NON-TECHNICAL ACCOUNT | Notes | 1999 £000 | *1998 Restated £000* |
|---|---|---|---|
| Balance on the general business technical account | | (19,453) | *(15,809)* |
| Balance on the long term business technical account | | 1,460 | *(3,296)* |
| Tax attributable to shareholders' long term business profits | | 633 | - |
| | | (17,360) | *(19,105)* |
| Investment income | 3 | 46,433 | *40,566* |
| Unrealised gains/(losses) on investments | 3 | 15,885 | *(18,591)* |
| Allocated investment return transferred from the long term business technical account | | 1,799 | *2,167* |
| Investment expenses and charges | | (1,697) | *(1,673)* |
| Other operations | | 225 | *294* |
| Other charges | 4(b) | (2,081) | *(2,610)* |
| Profit on sale of subsidiary undertaking | 25 | 1,003 | - |
| | | 61,567 | *20,153* |
| Operating profit - continuing operations | | 48,613 | *2,264* |
| - discontinued operations | 25 | (6,130) | *(2,902)* |
| Change in equalisation reserves | | 1,724 | *1,686* |
| Profit on ordinary activities before tax | | 44,207 | *1,048* |
| Tax on profit on ordinary activities | 8 | 11,496 | *2,732* |
| Profit/(loss) on ordinary activities after tax | | 32,711 | *(1,684)* |
| Minority interests | 16 | 12,791 | *(218)* |
| Profit/(loss) for the financial year | | 19,920 | *(1,466)* |
| Charitable grants | | 4,048 | *3,671* |
| Retained profit/(loss) for the financial year | 14 | 15,872 | *(5,137)* |

*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 1999*

| | 1999 | 1998 |
|---|---|---|
| Profit/(loss) for the financial year | 19,920 | *(1,466)* |
| Currency translation differences | 2,198 | *(849)* |
| Other movements | 37 | *(63)* |
| Total recognised gains and losses for the financial year | 22,155 | *(2,378)* |

PARENT COMPANY BALANCE SHEET

| *at 31 December 1999* | Notes | 1999 | *1998* |
|---|---|---|---|
| | | £000 | £000 |
| **Fixed assets : investments** | | | |
| Shares in group undertakings | 14, 26 | 146,402 | *128,504* |
| Current assets | | | |
| Prepayments and accrued income | | 10 | *20* |
| Taxation | | 460 | *460* |
| Cash at bank | | 4,034 | *3,809* |
| | | 4,504 | *4,289* |
| Creditors | | | |
| Amounts falling due within one year : | | | |
| Other creditors | | 20 | *6* |
| Accruals | | 2 | *10* |
| Net current assets | | 4,482 | *4,273* |
| Net assets | | 150,884 | *132,777* |
| Reserves | 14 | | |
| Revaluation reserve | | 146,352 | *128,454* |
| Retained profits | | 4,532 | *4,323* |
| | | 150,884 | *132,777* |

*The financial statements on pages 6 to 30 were approved by the board of directors on 29 June 2000 and signed on their behalf by*

SIR ALAN McLINTOCK *Chairman* C Alan McLintock
M. R. CORNWALL-JONES *Director* M.R. Cornwall-Jones

CONSOLIDATED BALANCE SHEET

*at 31 December 1999*

| | Notes | 1999 | *1998* |
|---|---|---|---|
| ASSETS | | £000 | *£000* |
| Goodwill | 9 | 3,832 | *4,143* |
| Investments | 10 | | |
| Land and buildings | | 19,841 | *12,037* |
| Investments in participating interests | | 45 | *68* |
| Other financial investments | | 635,676 | *655,608* |
| Value of long term insurance business | | 6,000 | *6,000* |
| | | 661,562 | *673,713* |
| Assets held to cover linked liabilities | 11 | 29,322 | *25,214* |
| Reinsurers' share of technical provisions | | | |
| Provision for unearned premiums | | 19,972 | *21,207* |
| Long term business provision | 17 | 1,975 | *2,401* |
| Claims outstanding | | 72,684 | *76,147* |
| | | 94,631 | *99,755* |
| Debtors | | | |
| Debtors arising out of direct insurance operations | 12 | 38,489 | *37,944* |
| Debtors arising out of reinsurance operations | | 36,260 | *41,482* |
| Other debtors | | 11,625 | *4,970* |
| | | 86,374 | *84,396* |
| Other assets | | | |
| Tangible assets | 13 | 10,103 | *3,592* |
| Cash at bank and in hand | | 50,803 | *63,291* |
| | | 60,906 | *66,883* |
| Prepayments and accrued income | | | |
| Accrued interest and rent | | 4,801 | *4,909* |
| Deferred acquisition costs | | 14,671 | *14,137* |
| Other prepayments and accrued income | | 4,112 | *5,213* |
| | | 23,584 | *24,259* |
| Total assets | | 960,211 | *978,363* |

CONSOLIDATED BALANCE SHEET
*at 31 December 1999*

| | Notes | 1999 | *1998* |
|---|---|---|---|
| LIABILITIES | | £000 | *£000* |
| Reserves | 14 | | |
| Long term business reserve | | 6,000 | *6,000* |
| General reserve | | 10,000 | *10,000* |
| Profit and loss account | | 134,884 | *116,777* |
| | | 150,884 | *132,777* |
| Minority interests | 16 | 26,596 | *78,418* |
| Fund for future appropriations | | 94,254 | *75,662* |
| Technical provisions | | | |
| Provision for unearned premiums | | 84,802 | *82,317* |
| Long term business provision | 17 | 226,795 | *231,966* |
| Claims outstanding | | 249,633 | *267,024* |
| Equalisation provision | | 3,298 | *5,024* |
| | | 564,528 | *586,331* |
| Technical provisions for linked liabilities | | 29,322 | *25,214* |
| Provisions for other risks and charges | 19 | 16,924 | *6,140* |
| Deposits received from reinsurers | | 869 | *1,771* |
| Creditors | | | |
| Creditors arising out of direct insurance operations | | 3,142 | *3,729* |
| Creditors arising out of reinsurance operations | | 31,009 | *23,096* |
| Other creditors including taxation and social security | 20 | 38,439 | *41,610* |
| | | 72,590 | *68,435* |
| Accruals and deferred income | | 4,244 | *3,615* |
| Total liabilities | | 960,211 | *978,363* |

CONSOLIDATED CASH FLOW STATEMENT

*for the year ended 31 December 1999*

*(excluding long term business)*

| | Notes | 1999 £000 | *1998 £000* |
|---|---|---|---|
| Net cash inflow from operating activities | 21(a) | (10,456) | *8,805* |
| Servicing of finance | | | |
| Loan interest paid | | (2,331) | *(2,631)* |
| Preference dividends paid | | (2,330) | *(2,309)* |
| Other interest paid | | (230) | *(165)* |
| Taxation paid | | (1,959) | *(651)* |
| Capital expenditure | | (7,046) | *(916)* |
| Acquisitions and disposals | 21(c) | 4,268 | *(9,465)* |
| Charitable grants paid | | (4,048) | *(3,682)* |
| Financing | | | |
| Capital element of lease purchase rental payments | | (317) | *(301)* |
| | | (24,449) | *(11,315)* |
| Cash flows were invested as follows: | | | |
| Decrease in cash holdings | | (3,085) | *(2,792)* |
| Net portfolio investment | | | |
| Purchases of shares and other variable yield securities | | 139,770 | *66,276* |
| Purchases of fixed income securities | | 30,109 | *57,171* |
| Purchases of properties | | 5,292 | - |
| Sales of shares and other variable yield securities | | (144,901) | *(68,785)* |
| Sales of fixed income securities | | (51,634) | *(62,742)* |
| Sales of properties | | - | *(443)* |
| Net investment of cash flows | | (24,449) | *(11,315)* |
| Movement arising from cash flows | 21(b) | (24,449) | *(11,315)* |
| Movement in long term business | | 28,930 | *6,271* |
| (Disposed of)/acquired with subsidiary | | (30,151) | *22,039* |
| Conversion of St Andrew Trust plc | | (11,854) | - |
| Changes in market values and exchange rate effects | | 16,993 | *450* |
| Total movement in portfolio investments net of financing | | (20,531) | *17,445* |
| Portfolio investments net of financing 1 January 1999 | | 728,218 | *710,773* |
| Portfolio investments net of financing 31 December 1999 | 21(b) | 707,687 | *728,218* |

# 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 as giving a more appropriate presentation of financial statements than the recommendations of the Statement of Recommended Practice "Accounting by Charities".

Change in accounting policy
The company has adopted FRS16 'Current Taxation'. Accordingly investment income is shown exclusive of any tax credit and the current tax charge similarly excludes any tax credit on investment income. This is a change from the previous policy of recording investment return and the current taxation charge inclusive of tax credits. Comparative amounts have been restated. The effect of the change is disclosed in note 8 to the accounts.

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. The results and cash flows relating to a business are included in the consolidated profit and loss account and the consolidated cash flow statement from the date of acquisition or up to the date of disposal.

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.

Premium levies
Provision is made for the potential liability to the Policyholders' Protection Board in respect of premiums recognised in these accounts to the extent that it is probable that a levy will be raised and a reasonable estimate of its amount can be made. The charge for any such provision is included within administrative expenses.

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.

*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 effective rate of corporation tax applicable for the year.

### 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. If this departure from the Act had not been made, the profit for the year would have been reduced by that depreciation. However, the amount of depreciation cannot reasonably be quantified, because depreciation is only one of many factors reflected in the periodic valuation and the amount that might otherwise have been shown cannot be separately identified or quantified.

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. 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.

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.

Investment return on investments attributable to the long term business and associated shareholders' fund is reported in the technical account for long term business. Other investment return is reported in the non-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 arising on an acquisition, being the difference between the cost and the fair value of assets and liabilities acquired, is capitalised in the balance sheet 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.

### Direct charitable expenditure

Due to its extensive nature, an analysis of these distributions is included in a separate publication, a copy of which can be obtained from the company secretary at the address of the registered office shown on page 1.

# Notes to the Accounts

## 1 Exchange rates

| | 1999 | 1998 |
|---|---|---|
| The principal rates of exchange used for translation are: | | |
| United States of America | US$1.61 | US$1.66 |
| Canada | C$2.34 | C$2.56 |
| Republic of Ireland | IR£1.27 | IR£1.12 |
| Australia | AUS$2.46 | AUS$2.71 |

## 2 Segmental analysis

(a) General business premiums

| | 1999 | | 1998 | |
|---|---|---|---|---|
| | Gross £000 | Net £000 | Gross £000 | Net £000 |
| Direct: | | | | |
| Accident | 5,202 | 5,038 | 3,916 | 3,830 |
| Motor | 32,650 | 30,749 | 23,674 | 22,132 |
| Property | 118,725 | 75,594 | 99,681 | 61,632 |
| Liability | 24,072 | 20,457 | 18,255 | 15,365 |
| | 180,649 | 131,838 | 145,526 | 102,959 |
| Reinsurance accepted and London market | 36,285 | 21,027 | 30,862 | 18,721 |
| Continuing operations | 216,934 | 152,865 | 176,388 | 121,680 |
| Discontinued operations - United States of America | 18,713 | 14,064 | 27,663 | 19,394 |
| Total | 235,647 | 166,929 | 204,051 | 141,074 |

| | | | | |
|---|---|---|---|---|
| Geographical analysis - on the basis of location of office | | | | |
| United Kingdom | 175,604 | 126,299 | 157,331 | 111,097 |
| Australia and New Zealand | 17,070 | 12,795 | - | - |
| Canada | 19,285 | 10,099 | 14,968 | 7,693 |
| Other overseas | 4,975 | 3,672 | 4,089 | 2,890 |
| Continuing operations | 216,934 | 152,865 | 176,388 | 121,680 |
| Discontinued operations - United States of America | 18,713 | 14,064 | 27,663 | 19,394 |
| Total | 235,647 | 166,929 | 204,051 | 141,074 |

(b) Long term business premiums
Geographical analysis - on the basis of location of office

| | | | | |
|---|---|---|---|---|
| United Kingdom | 19,894 | 19,624 | 19,256 | 18,921 |
| New Zealand | 73 | 42 | - | - |
| Total | 19,967 | 19,666 | 19,256 | 18,921 |

2 Segmental analysis (continued)

The analysis of long term business premiums written before reinsurance is :

| | 1999 £000 | *1998 £000* |
|---|---|---|
| Life insurance business | | |
| - Single premiums | 361 | *109* |
| - Regular premiums | 7,411 | *7,152* |
| Annuity business | | |
| - Single premiums | 5,485 | *6,040* |
| Pension business | | |
| Non-linked contracts | | |
| - Single premiums | 759 | *454* |
| - Regular premiums | 2,195 | *1,943* |
| Linked contracts | | |
| - Single premiums | 494 | *493* |
| - Regular premiums | 3,013 | *2,848* |
| PHI business | 249 | *216* |
| Endowment certain business | - | *1* |
| | 19,967 | *19,256* |

| | | |
|---|---|---|
| Gross new annualised regular premiums | | |
| Life insurance | 815 | *785* |
| Pensions | 594 | *577* |
| | 1,409 | *1,362* |

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 | 46,690 | *6,590* |
| Australia and New Zealand | 802 | *-* |
| Canada | 1,222 | *789* |
| Other overseas | (470) | *(133)* |
| Long term business | 2,093 | *(3,296)* |
| Continuing operations | 50,337 | *3,950* |
| Discontinued operations - United States of America | (6,130) | *(2,902)* |
| | 44,207 | *1,048* |

| | | |
|---|---|---|
| (d) Net assets | | |
| United Kingdom | 120,943 | *91,107* |
| Australia and New Zealand | 5,261 | *-* |
| Canada | 13,409 | *11,518* |
| Other overseas | (328) | *239* |
| Long term business | 11,599 | *10,139* |
| Continuing operations | 150,884 | *113,003* |
| Discontinued operations - United States of America | - | *19,774* |
| | 150,884 | *132,777* |

## 3 Investment income and unrealised gains

| | 1999 General business £000 | 1999 Long term business £000 | *1998 Restated General business £000* | *1998 Restated Long term business £000* |
|---|---|---|---|---|
| *Investment income:* | | | | |
| - land and buildings | 646 | 760 | *318* | *727* |
| - other investments | 18,264 | 14,756 | *19,710* | *15,921* |
| - group undertakings | - | 324 | *-* | *258* |
| Realised investment gains | 5,670 | 6,552 | *10,883* | *4,250* |
| Realised investment gains of investment trust subsidiary | 21,853 | - | *9,655* | *-* |
| | 46,433 | 22,392 | *40,566* | *21,156* |
| *Unrealised gains/(losses):* | | | | |
| Losses of investment trust subsidiary | - | - | *(18,809)* | *-* |
| Other gains and losses | 15,885 | 22,865 | *218* | *6,794* |
| | 15,885 | 22,865 | *(18,591)* | *6,794* |

## 4 Expenses

| | 1999 General business £000 | 1999 Long term business £000 | *1998 General business £000* | *1998 Long term business £000* |
|---|---|---|---|---|
| **(a) Net operating expenses** | | | | |
| Commission paid on direct business | 38,171 | 17 | *32,681* | *41* |
| Other acquisition costs | 20,293 | 1,637 | *15,614* | *2,261* |
| Change in deferred acquisition costs | (883) | 34 | *(167)* | *(46)* |
| Administrative expenses | 18,430 | 3,008 | *13,468* | *2,162* |
| Reinsurance commissions and profit participation | (21,682) | (22) | *(17,819)* | *(21)* |
| | 54,329 | 4,674 | *43,777* | *4,397* |

The group has incurred the following amounts in respect of:

| | | | | | |
|---|---|---|---|---|---|
| Depreciation : | - property | 26 | - | *17* | *-* |
| | - owned assets | 52 | 136 | *468* | *103* |
| | - leased assets | 318 | (11) | *(16)* | *(20)* |
| Auditors' remuneration : | - parent | 2 | - | *1* | *-* |
| | - group UK | 203 | 29 | *95* | *26* |
| | - group overseas | 179 | - | *143* | *-* |
| | - group fees for non-audit service | 302 | 11 | *85* | *-* |
| Interest payments under lease purchase contracts | | 111 | 35 | *108* | *25* |

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

| | 1999 General business £000 | 1999 Long term business £000 | *1998 General business £000* | *1998 Long term business £000* |
|---|---|---|---|---|
| **(b) Other charges** | | | | |
| Debenture interest | 780 | - | *780* | *-* |
| Corporate business loan interest | 865 | - | *860* | *-* |
| Corporate expenditure | - | - | *960* | *-* |
| Amortisation of goodwill | 436 | - | *10* | *-* |
| | 2,081 | - | *2,610* | *-* |

(c) Depreciation on land and buildings

Accumulated depreciation on land and buildings occupied by the group was £610,000 (£574,000).

5 Employee information

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

| | 1999 | | 1998 | |
|---|---|---|---|---|
| | General business No. | Long term business No. | *General business No.* | *Long term business No.* |
| United Kingdom | 834 | 67 | *750* | *65* |
| Australia and New Zealand | 70 | - | - | - |
| North America | 68 | - | *66* | - |
| Republic of Ireland | 17 | - | *15* | - |
| | 989 | 67 | *831* | *65* |
| | £000 | £000 | *£000* | *£000* |
| Wages and salaries | 19,072 | 1,424 | *14,695* | *1,504* |
| Social security costs | 1,276 | 129 | *1,022* | *116* |
| Other pension costs | 2,465 | 193 | *1,814* | *183* |
| | 22,813 | 1,746 | *17,531* | *1,803* |

6 Directors' emoluments

| | 1999 £ | *1998 £* |
|---|---|---|
| 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: | 91,890 | *92,586* |
| Highest paid director's fees | 40,890 | *43,186* |

The chairman received no emoluments.

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 attained age method. The most recent valuation was at 31 December 1998. 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 £68,581,000 and that the actuarial value of the assets was in excess of 120% of 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 £2,363,000 (£1,997,000). Of this £2,228,000 (£1,836,000) 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 | |
|---|---|---|---|---|
| | 1999 | *1998* | 1999 | *1998* |
| | £000 | *£000* | £000 | *£000* |
| UK Corporation tax at 30.25% (31%) | 939 | *340* | (70) | *2,969* |
| Overseas tax | 47 | *17* | 148 | *(337)* |
| Deferred tax on unrealised investment gains | - | *-* | 10,784 | *99* |
| Share of associated undertaking's tax | - | *-* | 1 | *1* |
| Tax attributable to shareholders' long term business profits | - | | 633 | |
| Adjustment in respect of prior years | - | *(35)* | - | *-* |
| | 986 | *322* | 11,496 | *2,732* |

*Change in accounting policy*

The effect of the change in accounting policy is a decrease in profits before tax of £518,000 (£1,165,000), with a corresponding reduction in the charge for tax in the non-technical account.

The charge for tax in the non-technical account includes a provision for deferred tax on equities previously sheltered in an investment trust subsidiary.

## 9 Goodwill

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.

| The carrying value of goodwill is as follows: | 1999 | *1998* |
|---|---|---|
| | £000 | *£000* |
| Balance 1 January 1999 | 4,143 | *-* |
| Additions | 125 | *4,153* |
| Amortisation during the year | (436) | *(10)* |
| Balance carried forward 31 December 1999 | 3,832 | *4,143* |

## 10 Investments at current value

| | 1999 | | | *1998* | | |
|---|---|---|---|---|---|---|
| | General business | Long term business | Total | *General business* | *Long term business* | *Total* |
| | £000 | £000 | £000 | *£000* | *£000* | *£000* |
| Freehold land and buildings | | | | | | |
| - occupied by the group | 2,382 | - | 2,382 | *2,733* | *-* | *2,733* |
| - other | 7,857 | 9,602 | 17,459 | *1,955* | *7,349* | *9,304* |
| | 10,239 | 9,602 | 19,841 | *4,688* | *7,349* | *12,037* |
| Other financial investments | | | | | | |
| Shares and other variable yield securities and units in unit trusts: | | | | | | |
| - listed | 194,709 | 192,193 | 386,902 | *210,480* | *167,769* | *378,249* |
| - unlisted | 1,512 | 1,806 | 3,318 | *112* | *525* | *637* |
| | 196,221 | 193,999 | 390,220 | *210,592* | *168,294* | *378,886* |

10 Investments at current value (continued)

| | 1999 | | | 1998 | | |
|---|---|---|---|---|---|---|
| | General business £000 | Long term business £000 | Total £000 | *General business £000* | *Long term business £000* | *Total £000* |
| Debt and other fixed income securities: | | | | | | |
| - listed | 117,032 | 55,605 | 172,637 | *150,267* | *50,948* | *201,215* |
| - unlisted | 720 | 652 | 1,372 | *371* | *557* | *928* |
| Loans secured by mortgages | 14,255 | 56,692 | 70,947 | *16,240* | *57,843* | *74,083* |
| Other loans | 47 | 453 | 500 | *67* | *429* | *496* |
| | 132,054 | 113,402 | 245,456 | *166,945* | *109,777* | *276,722* |
| Total | 328,275 | 307,401 | 635,676 | *377,537* | *278,071* | *655,608* |

| | General business £000 | Long term business £000 | Total £000 | *General business £000* | *Long term business £000* | *Total £000* |
|---|---|---|---|---|---|---|
| **Debt securities and fixed income securities valued at amortised cost** | | | | | | |
| Cost | 130,962 | 47,125 | 178,087 | *125,172* | *42,832* | *168,004* |
| Cumulative amortisation | (537) | (1,442) | (1,979) | *18* | *(744)* | *(726)* |
| Current value | 130,425 | 45,683 | 176,108 | *125,190* | *42,088* | *167,278* |
| Unamortised maturity value | (2,057) | (2,167) | (4,224) | *(2,130)* | *(522)* | *(2,652)* |
| Maturity value | 128,368 | 43,516 | 171,884 | *123,060* | *41,566* | *164,626* |
| Market value | 131,330 | 49,955 | 181,285 | *136,610* | *50,278* | *186,888* |

The value of the group's investments at historical cost is £545,676,000 (£499,646,000).

Freehold land and buildings occupied by the group were valued at 31 December 1997 at market value based on vacant possession. Other properties were valued on an open market existing use basis at 31 December 1999.

11 Assets held to cover linked liabilities

| | 1999 | | 1998 | |
|---|---|---|---|---|
| | Current value £000 | Historical cost £000 | *Current value £000* | *Historical cost £000* |
| Assets held to cover linked liabilities | 29,322 | 20,682 | *25,214* | *18,214* |

12 Debtors

Group debtors arising out of direct insurance operations

| | 1999 | | | 1998 | | |
|---|---|---|---|---|---|---|
| | General business £000 | Long term business £000 | Total £000 | *General business £000* | *Long term business £000* | *Total £000* |
| Policyholders | 17,260 | 394 | 17,654 | *13,575* | *2,047* | *15,622* |
| Intermediaries | 20,835 | - | 20,835 | *22,322* | *-* | *22,322* |
| | 38,095 | 394 | 38,489 | *35,897* | *2,047* | *37,944* |

**13 Tangible assets**

*Group*

| | £000 |
|---|---|
| Cost: | |
| At 1 January 1999 | 12,776 |
| Additions | 9,232 |
| Exchange | 99 |
| Disposals | (1,240) |
| At 31 December 1999 | 20,867 |
| Depreciation : | |
| At 1 January 1999 | 9,184 |
| Additions | 2,377 |
| Exchange | 46 |
| Disposals | (843) |
| At 31 December 1999 | 10,764 |
| Net book value 31 December 1999 | |
| General business | 9,311 |
| Long term business | 792 |
| | 10,103 |
| Net book value 1 January 1999 | |
| General business | 3,085 |
| Long term business | 507 |
| | 3,592 |

The above tangible assets comprise computer equipment, motor vehicles and office equipment. In addition, the balance sheet includes assets in the course of construction (relating to computer equipment) amounting to £5,856,000 (nil). Depreciation of £2,377,000 (£1,058,000) relates to computer equipment, motor vehicles and office equipment. No depreciation has been charged on the assets in course of construction as these have not yet been brought into use at the balance sheet date.

The provision for depreciation in the year includes adjustments in respect of the acquisition of the Ansvar group of companies.

None of the tangible assets noted above relate to the parent company.

**14 Reserves**

| | Revaluation and other reserves £000 | Long term insurance business reserve £000 | General reserve £000 | Profit and loss account £000 | Total £000 |
|---|---|---|---|---|---|
| *Group* | | | | | |
| Balance 1 January 1999 | - | 6,000 | 10,000 | 116,777 | 132,777 |
| Currency translation differences | - | - | - | 2,198 | 2,198 |
| Other movements | - | - | - | 37 | 37 |
| Transfer from profit and loss account | - | - | - | 15,872 | 15,872 |
| Balance 31 December 1999 | - | 6,000 | 10,000 | 134,884 | 150,884 |
| *Parent* | | | | | |
| Balance 1 January 1999 | 128,454 | - | - | 4,323 | 132,777 |
| Revaluation of group undertakings | 17,898 | - | - | - | 17,898 |
| Transfer from profit and loss account | - | - | - | 209 | 209 |
| Balance 31 December 1999 | 146,352 | - | - | 4,532 | 150,884 |

Included in the group profit and loss account are £93,733,000 (£73,295,000) of unrealised investment gains which the directors do not regard as distributable.

## 15 Reconciliation of movements in group shareholders' funds

| | 1999 £000 | *1998 £000* |
|---|---|---|
| Profit/(loss) for the financial year | 19,920 | *(1,466)* |
| Other recognised gains and losses | 2,235 | *(912)* |
| | 22,155 | *(2,378)* |
| Charitable grants net of tax relief | (4,048) | *(3,671)* |
| Net movement in shareholders' funds | 18,107 | *(6,049)* |
| Opening shareholders' funds | 132,777 | *138,826* |
| Closing shareholders' funds | 150,884 | *132,777* |

## 16 Minority interests

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

| | Profit and Loss Account | | Balance Sheet | |
|---|---|---|---|---|
| | 1999 £000 | *1998 £000* | 1999 £000 | *1998 £000* |
| **Equity interests** | | | | |
| St Andrew Trust plc | | | | |
| Ordinary shares of £1 each | 10,450 | *(2,535)* | - | *51,575* |
| Chatham Holdings Inc. | | | | |
| **Non-equity interests** | | | | |
| Ecclesiastical Insurance Office plc | | | | |
| 2.8% First Cumulative Preference shares of £1 each | 2 | *2* | 87 | *92* |
| 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 | 2,028 | *2,006* | 23,509 | *23,509* |
| St Andrew Trust plc | | | | |
| 5.25% Cumulative Preference stock (now 3.675% plus tax credit) | 11 | *9* | - | *242* |
| | 12,791 | *(218)* | 26,596 | *78,418* |

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 |
|---|---|
| 2000 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 | | 1999 | 1998 |
|---|---|---|---|
| | | % | % |
| Assurances: | | | |
| Life | | 2.5 - 3.0 | 2.5 - 3.0 |
| Pensions | | 2.5 | 3.0 |
| Annuities: | | | |
| With profit | - deferred | 2.0 - 3.0 | 2.5 - 3.5 |
| Without profit | - deferred | 3.5 - 5.5 | 3.5 - 3.75 |
| | - vested | 4.5 - 5.5 | 4.0 - 5.0 |
| (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 provision has reduced shareholders' funds by £3,298,000 (£5,024,000) and increased both the balance on the general business technical account and the profit before taxation for the year by £1,724,000 (£1,686,000).

## 19 Provisions for other risks and charges

The provision shown in the accounts relates to deferred tax in respect of short term timing differences and on unrealised investment gains that are expected to crystallise in the foreseeable future.

Deferred tax on unrealised investment gains not provided for in the accounts amounted to £15,431,000 (£5,791,000).

| | 1999 | 1998 |
|---|---|---|
| | £000 | £000 |
| Deferred tax provided at 1 January 1999 | 6,140 | 5,902 |
| Increase in provision | 10,784 | 238 |
| Deferred tax provided at 31 December 1999 | 16,924 | 6,140 |

**20 Other creditors including taxation and social security**

| | 1999 £000 | 1998 £000 |
|---|---|---|
| Amounts falling due within one year: | | |
| Other creditors | 6,493 | 8,227 |
| Taxation | 2,906 | 4,405 |
| | 9,399 | 12,632 |
| Amounts falling due after more than one year: | | |
| Debenture stock | 6,000 | 6,000 |
| Corporate business loans | 22,000 | 22,000 |
| Other creditors | 1,040 | 978 |
| | 29,040 | 28,978 |
| Total | 38,439 | 41,610 |
| Included in other creditors are obligations under lease purchase contracts due: | | |
| In 1 year or less | 453 | 431 |
| Between 2 and 5 years | 1,027 | 967 |
| Over 5 years | 13 | 11 |
| | 1,493 | 1,409 |

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.

A corporate business loan of £12,000,000 (£12,000,000) is secured against the assets of Allchurches Mortgage Company Limited. Interest is payable at periodic London Interbank Offered Rates plus an appropriate margin. The final maturity date for the loan facility, totalling £16,000,000, is 23 December 2009.

A further corporate business loan of £10,000,000 is secured on Ecclesiastical Insurance Group plc's holdings of Ordinary shares and 9.5% Redeemable Third Non-Cumulative Preference shares in Ecclesiastical Insurance Office plc and is repayable within five years.

The group is required under the Policyholders' Protection Act to contribute towards any levies raised by the Policyholders' Protection Board on UK general insurance business. The amount of the levy may vary from nil to a maximum levy of 1% of the UK written premium net of reinsurance. No levy was raised by the Policyholders' Protection Board during the year (nil).

**21 Notes to the cash flow statement**

| | 1999 | 1998 |
|---|---|---|
| **(a) Reconciliation of profit on ordinary activities before tax to net cash inflow from operating activities.** | £000 | £000 |
| Profit on ordinary activities before tax | 44,207 | 1,048 |
| Depreciation charges | 396 | 469 |
| Amortisation of fixed interest securities | 185 | 516 |
| Amortisation of goodwill | 436 | 10 |
| Unrealised (gains)/losses on investments | (15,886) | 18,591 |
| (Decrease)/increase in net general insurance provisions | (13,987) | 7,867 |
| (Profit)/loss relating to long term business | (2,093) | 3,296 |
| Share of profits of associates | (3) | (5) |
| Loan interest payable | 2,331 | 2,631 |
| Other interest payable | 230 | 165 |
| Realised investment gains | (27,523) | (20,817) |
| Loss on sales of tangible fixed assets | 28 | 11 |
| Movements in debtors less creditors | 2,226 | (4,977) |
| Profit on sale of subsidiary undertaking | (1,003) | - |
| | (10,456) | 8,805 |

21 Notes to the cash flow statement (continued)

(b) Movements in cash, portfolio investments and financing

| | At 1 January 1999 £000 | Cash flow £000 | Conversion of St Andrew Trust plc £000 | Disposed of with subsidiary £000 | Changes in long term business £000 | Changes in market value exchange and others £000 | At 31 December 1999 £000 |
|---|---|---|---|---|---|---|---|
| Cash at bank and in hand | 63,291 | (3,085) | - | (1,897) | (6,823) | (683) | 50,803 |
| Shares and other variable yield securities | 378,954 | (5,131) | (11,854) | | 25,705 | 2,591 | 390,265 |
| Fixed income securities | 276,722 | (21,525) | - | (28,254) | 3,687 | 14,826 | 245,456 |
| Land and buildings | 12,037 | 5,292 | - | - | 2,253 | 259 | 19,841 |
| Assets held to cover linked liabilities | 25,214 | - | - | - | 4,108 | - | 29,322 |
| Loans due within 1 year | (12,000) | - | - | - | - | 12,000 | - |
| Loans due after 1 year | (16,000) | - | - | - | - | (12,000) | (28,000) |
| | 728,218 | (24,449) | (11,854) | (30,151) | 28,930 | 16,993 | 707,687 |

| (c) Analysis of net cash inflow on disposal of subsidiary | £000 |
|---|---|
| Consideration received in the financial year | 6,165 |
| Cash at bank and in hand disposed of with subsidiary | (1,897) |
| Net cash inflow on disposal of subsidiary | 4,268 |

22 Operating Leases

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

| | 1999 Premises £000 | 1999 Equipment £000 | *1998 Premises £000* | *1998 Equipment £000* |
|---|---|---|---|---|
| Commitments | | | | |
| Expiring: | | | | |
| Within 1 year | 333 | 3 | *198* | *3* |
| Between 2 and 5 years | 197 | 785 | *598* | *589* |
| Over 5 years | 1,203 | 58 | *1,279* | *-* |
| | 1,733 | 846 | *2,075* | *592* |
| **Payments included in operating expenses** | 1,471 | 659 | *1,610* | *557* |

23 Capital commitments

At 31 December 1999 there were no outstanding contracts for capital expenditure (£1,111,000).

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 £796,000 (£978,000) 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 £249,000 (£278,000) was prepaid at the balance sheet date. This has been accounted for in the long term business technical account.

## 25 Disposals of subsidiary undertakings

*St Andrew Trust plc*

On 9 September 1999, St Andrew Trust plc, the investment trust in which the Ecclesiastical Insurance group held a majority shareholding, was reconstructed. The majority of the group's share of the net assets of the Trust, after costs of reconstruction, were converted into the funds of an open ended investment company also managed by the group. The company's share of the costs of liquidation are included in the movement in unrealised gains shown in the profit and loss account on page 9.

*Chatham Holdings Inc.*

Prior to December 1999, Chatham Holdings Inc., a company incorporated and registered in the United States of America, was jointly owned by the company's subsidiary undertakings, Ecclesiastical Insurance Office plc and Eccint Limited, in the proportions of 61.2% and 38.8% respectively. Ecclesiastical Insurance Office plc sold its entire holding to Eccint Limited on 20 December 1999 for the sum of £9,233,786.

On 22 December 1999 Eccint Limited, being the holder of the entire issued share capital of Chatham Holdings Inc. exchanged contracts for the sale of that company to Mapfre Re. The effective date of completion was 31 March 2000. The results of Chatham Holdings Inc., included in the profit and loss account as a discontinued operation, are shown below.

| | 1999 Continuing operations £000 | 1999 Discontinued operations £000 | 1999 Total £000 | *1998 Continuing operations £000* | *1998 Discontinued operations £000* | *1998 Total £000* |
|---|---|---|---|---|---|---|
| Gross premiums written | 216,934 | 18,713 | 235,647 | *176,388* | *27,663* | *204,051* |
| Outwards reinsurance premiums | 64,069 | 4,649 | 68,718 | *54,708* | *8,269* | *62,977* |
| Net written premiums | 152,865 | 14,064 | 166,929 | *121,680* | *19,394* | *141,074* |
| Net change in provision for unearned premiums | 6,492 | (1,473) | 5,019 | *722* | *(651)* | *71* |
| Earned premiums, net of reinsurance | 146,373 | 15,537 | 161,910 | *120,958* | *20,045* | *141,003* |
| Net incurred claims | 110,803 | 17,955 | 128,758 | *96,300* | *18,421* | *114,721* |
| Net operating expenses | 47,726 | 6,603 | 54,329 | *36,481* | *7,296* | *43,777* |
| Total technical charges | 158,529 | 24,558 | 183,087 | *132,781* | *25,717* | *158,498* |
| Balance on the technical account before equalisation provisions | (12,156) | (9,021) | (21,177) | *(11,823)* | *(5,672)* | *(17,495)* |
| Change in equalisation provision | 1,724 | - | 1,724 | *1,686* | - | *1,686* |
| Balance on the technical account for general business | (10,432) | (9,021) | (19,453) | *(10,137)* | *(5,672)* | *(15,809)* |
| Balance on the technical account for long term business | 1,460 | - | 1,460 | *(3,296)* | - | *(3,296)* |
| Tax attributable to the shareholders' long term business profits | 633 | - | 633 | - | - | - |
| | (8,339) | (9,021) | (17,360) | *(13,433)* | *(5,672)* | *(19,105)* |
| Investment income | 44,446 | 1,987 | 46,433 | *37,680* | *2,886* | *40,566* |
| Unrealised gains/(losses) on investments | 15,885 | - | 15,885 | *(18,591)* | - | *(18,591)* |
| Allocated investment return transferred from the long term business technical account | 1,799 | - | 1,799 | *2,167* | - | *2,167* |
| Investment expenses and charges | (1,598) | (99) | (1,697) | *(1,557)* | *(116)* | *(1,673)* |
| Other operations | 225 | - | 225 | *294* | - | *294* |
| Other charges | (2,081) | - | (2,081) | *(2,610)* | - | *(2,610)* |
| Profit on sale of subsidiary undertaking | - | 1,003 | 1,003 | - | - | - |
| | 50,337 | (6,130) | 44,207 | *3,950* | *(2,902)* | *1,048* |

25 Disposals of subsidiary undertakings (continued)

| | Chatham Holdings Inc |
|---|---|
| Net assets disposed of: | £000 |
| Investments | 28,254 |
| Tangible assets | 57 |
| Cash at bank and in hand | 1,897 |
| Debtors | 6,526 |
| Creditors | (2,699) |
| Net technical provisions | (20,755) |
| Other provisions | 623 |
| Profit on disposal | 1,003 |
| | 14,906 |
| Satisfied by: | |
| Cash | 6,165 |
| Debtor | 8,741 |
| | 14,906 |

26 Subsidiary and associated undertakings

| Subsidiaries | 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% |
| 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 Pensions Limited | Ordinary shares | | 100% |
| Blaisdon Properties Limited | Ordinary shares | | 100% |
| Crusade Services Limited | Ordinary shares | | 100% |
| Eccint Limited | Ordinary shares | | 100% |
| Ecclesiastical Insurance Office plc | Ordinary shares | | 100% |
| | 2.8% First Cumulative Preference shares | | 65.3% |
| | 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 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% |

| 26 Subsidiary and associated undertakings (continued) | Share capital | Holdings of shares by: Subsidiary |
|---|---|---|
| **Associated undertaking** | | |
| *Incorporated and operating in Great Britain, engaged in insurance business:* | | |
| Wright Underwriting Group Limited | Ordinary shares | 25% |

In addition, there are 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.