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ECCLESIASTICAL

ECCLESIASTICAL INSURANCE GROUP plc

REPORT AND ACCOUNTS 31 DECEMBER 1999

Report and Accounts 31 December 1999

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Chairman's Statement

In another difficult year for insurance underwriters, I am pleased to report that the 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 our general insurance operations. Importantly, this year we have successfully made two structural changes to the shape of the business which give us additional confidence for the future.

The Financial Statement on page 19 shows a substantial improvement in the profit after tax from which to service dividends to shareholders and charitable grants, with a swing from a deficit of £3.3 million in 1998 to a positive figure of £31.3 million in 1999. As I indicated in my Chairman's Statement last year, the requirement under the ABI SORP 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 strange comparisons. This year, stock markets have moved in our favour. The Financial Statements are further complicated by the two structural changes to which I have already referred – namely the reconstruction and subsequent liquidation of our subsidiary, St Andrew Trust, last September and the sale of our interest in Chatham Holdings Inc. in the USA. In summary the figures on page 19 show 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; a healthy improvement in the total investment return to £61.3 million (£19.8 million); a loss of £6.1 million (loss £2.9 million) from discontinued operations (Chatham Holdings); an increased provision for tax of £12.7 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 mainly representing the elimination from our accounts of the minority interest in St Andrew.

Stripping out unrealised capital gains and the impact of the St Andrew reconstruction, there was a small diminution in profit but I do not regard the outcome 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.

It is right that I should comment further on the two major structural changes. Our investment in St Andrew Trust has served us well since our original investment in 1983. It helped us to build the capital base which facilitated the significant growth we have been able to achieve in our insurance business during Ecclesiastical's recent history and I pay tribute to the architects of this successful initiative. Over the years our investment increased to the point where St Andrew became a subsidiary and the size of its portfolio accounted for a material proportion of Ecclesiastical's total investments. We concluded that our future interest would best be served, as would that of minority shareholders in the Trust, by a reconstruction of St Andrew. I am happy to report that this was successfully implemented during the year with the agreement of both the independent directors of St Andrew and its investment managers, Martin Currie. From our share of net assets of the Trust we have created a series of new investment funds that will support the continued development of our own financial services operations.

In contrast, our venture into the United States which began in 1991 and led to Chatham Holdings becoming a wholly owned subsidiary in 1997 has not been a success. Diversification into new areas is not without risk. It is a process that we have managed well elsewhere but on this occasion, sadly, the combination of writing reinsurance business on a small scale and the extremely difficult market environment that exists in the USA presented an overwhelming obstacle to the viability of our operation there. We have learned valuable lessons from this experience which is happily now resolved as described in the Managing Director's Review of Group Operations.

His Review also summarises trading results as a whole but I would like to single out some developments for special comment. 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. The challenges of encouraging and helping local management, often from a significant distance, in developing their businesses on a profitable basis have been recognised and I believe we have made good progress in establishing an appropriate control framework. I am 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 to which I have referred in the past are maturing 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.

Despite the sizeable underwriting losses from general insurance, our overall results and our confidence in the prospects for continuing operations have enabled us to make a further grant of £4 million to Allchurches Trust. This amount will enable Allchurches Trust to fund charitable distributions to the Church in 2000. Ecclesiastical's 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. Over the last five years, grants from Ecclesiastical have enabled Allchurches Trust to distribute more than £16 million to dioceses, parishes and other charitable organisations.

Though itself unaltered, our mission is being pursued in times of unparalleled change in both business and social environments. The key events of 1999 described in this report are evidence of the pressures we face. To ensure that we can continue to prosper, 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 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. The general regime of corporate governance is continuing to evolve with further guidance on internal controls following the Turnbull Report. In the absence of a listing for our ordinary shares, Ecclesiastical is not required to comply with the Combined Code but the policy of the Directors is to ensure that the business is conducted to equivalent high standards. This intention will be reinforced by measuring our organisation, systems and controls against the requirements laid down by the Financial Services Authority once they are formalised.

The higher standards of control now demanded sit comfortably with the Company'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, our shareholders or the community at large. We value the high reputation that the Company enjoys and are working to express in our corporate policies the substance of our beliefs.

While some small measure of improvement has been achieved in the results from continuing operations, we clearly have more to do before we can be satisfied that we are earning an adequate return from general insurance. Market conditions have been at a very low ebb for some years now, but there are some welcome signs of returning realism. It is to be hoped that the record catastrophe losses that have severely affected the results of our global competitors will further accelerate the remedial action that is needed in many classes of business. The need for recovery in the UK will be heightened by the increased cost of compensation that will flow from the recent decisions of the Court of Appeal. These judgments will bring for both Ecclesiastical and the market as a whole a significant retrospective financial cost that will not, in practice, be easily recoverable from future premiums on the liability and motor classes.

In coping with what appears to be increased volatility in claims experience driven by climate change and social inflation, sound pricing and strong balance sheets are increasingly essential if the insurance industry is to be successful in maintaining its fundamental role of supporting the economy by protecting the individual policyholder and business alike from the financial consequences of the unexpected. I believe our strength, professionalism and philosophy will enable Ecclesiastical to continue to provide a first-class service to our customers and, above all, access to a secure and stable market in which the wide ranging insurance needs of our clients in the Church can be economically fulfilled over the long term.

We were delighted when Bernard Day, our Vice Chairman, was honoured in the New Year for his services to the insurance industry. Under his leadership, the Company flourished and widened its sphere of operations. His OBE is a well deserved tribute for all of his achievements during his long career in our business.

Over the years the Board of the Ecclesiastical has benefited from the wide range of interests and experience of its Directors. We have particularly valued the contribution of John Simpson, Dean of Canterbury, for which we give thanks, and whose turn it is to retire this year. The process of regeneration of the Board is under active consideration as we wish to retain the balance of membership we have established. I expect to report further on this important subject during the course of the coming year.

A business is run and managed by people. It is on their service, professionalism and dedication that the Ecclesiastical depends. In expressing my thanks on behalf of the Board to Graham Doswell and all who work for the Company, I do so in the knowledge that this has been a demanding year with the need for all to adapt to a changing market place. The response has been exemplary.

M.C. Cornwall-Jones

Mark Cornwall-Jones
Chairman

Amidst highly competitive and rapidly changing market conditions throughout 1999, we have made good progress with a wide range of initiatives that are intended to position Ecclesiastical for successful development in its chosen areas of operation into the twenty first century. In financial terms, reported profits have grown strongly and we have been able to maintain the high level of charitable grants to Allchurches Trust with a further payment of £4 million. Net assets have increased by 14% to £146 million equivalent to a solvency ratio of 105% for general insurance business, one of the highest in the UK insurance sector.

Pre-tax profits benefited from investment gains in our previously owned investment trust subsidiary, St Andrew Trust, prior to its reconstruction in September. Total investment income rose by 15%.

Competitive pressure held back trading profits from general insurance and underwriting losses were compounded by a share in the string of catastrophic natural weather events that seriously affected so many parts of the world during the year. Despite these difficulties, we are pleased that it was possible to achieve some measure of improvement in results from continuing operations relative to premium income.

Continuation of very poor underwriting performance from business written in recent years by our US subsidiary, Chatham Reinsurance Corporation, led to a fundamental review of its future role in the Group. As a substantial increase in capital would have been required for it to be regarded as a meaningful player in the US market, we concluded that withdrawal would be the right course of action. I am happy to report that there was a positive outcome to discussions with Mapfre Re, with whom we have enjoyed a long-standing and successful relationship, to acquire our entire interest in Chatham Re as the vehicle for a new reinsurance operation in the US with a significantly increased capital base. The contract was concluded in December and is subject to regulatory approval. As a result, Ecclesiastical will receive further shares in Mapfre Re together with board representation. Mapfre Re is the international reinsurance subsidiary of Corporacion Mapfre – a leader in general and life business in Spain.

In general insurance, gross premium income was up by 15% overall. Within that total, we achieved a significant increase of 23% from continuing operations – the first time consolidation of our Ansvar subsidiary in the UK and the EIG-Ansvar companies in Australia and New Zealand contributed fourteen points to this growth rate. In long-term business, growth in total premiums written was modest.

General Insurance – United Kingdom

Our efforts to achieve an improvement in results met with some success. Weather conditions in the UK were, thankfully, much kinder than in previous years although the hurricanes that swept through France and other parts of Europe just before the end of the year are a stark and local reminder of the scale of damage to which our country is exposed.

Competition has driven down premiums in many classes of business to levels that are unsustainable given the pressures that continue to push up claims costs. Where justified we increased premiums steadily through the year with a particular focus on motor insurance where losses across the market have reached record levels. I regret that we could not escape the need to ask for higher premiums from our motor policyholders in the clergy where results have been equally poor. We have, however, done what we can to phase in the corrective action needed.

Our strategy to provide the best service possible and to improve the value for money offered to all our customers was reinforced by the successful extension of ISO 9002 registration to our claims and surveying operations and the whole of our UK branch network. The all round value of our service proposition to the Anglican community was boosted by several initiatives including the free supply of the Alpha Dot security marking system to all churches we insure. We hope this security measure will help to stem the sacrilegious tide of theft involving church property.

Gross premium income in Ecclesiastical grew by 5% with a stronger increase of 8% in net premiums. The operating ratio improved to 102% with a reduced underwriting loss of £3.4 million before equalisation movements.

General Insurance – International
In contrast to the United Kingdom, several of our international operations were affected by the severe impact of natural catastrophes which are set to make 1999 the second most expensive year on record for insurers worldwide with the regrettable attendant loss of human life. Results from continuing operations deteriorated accordingly with an underwriting loss of £7.9 million before equalisation adjustments. Gross premiums grew by 21%.

In Canada, premium income grew strongly and there was a small reduction in the underwriting loss. Market conditions remain highly competitive but we are now seeing encouraging signs of hardening enabling us to carry much needed increases in premium rates. We had a successful year in Ireland with a positive outcome in terms of profitability and growth.

The effect of weather catastrophes was most acutely felt in our London Market operations which continued to suffer from the inadequate pricing levels of recent years. Funds for open underwriting years have been considerably strengthened to meet the claims costs we expect to materialise from these events and we have again accounted for an overall loss for the year. Underwriting strategy has been reviewed in the light of the unprofitable results and remedial action is being taken.

The full year effect of the arrangement entered into with Methodist Insurance PLC contributed significantly to growth in our inwards reinsurance account. Results overall were adversely affected by the December storms in Denmark, Germany and Switzerland.

Elsewhere, we have extended our operations in Cyprus and we welcome the appointment of G.A.P. Vassilopoulos Group who will be working alongside our existing representation on the island through John Makriyiannis & Son Ltd. We were pleased with the continued positive development of our relationship with SMS Insurance Agency in Malta and with the results achieved by W. A. Hienfeld in Holland.

General Insurance – Subsidiary Companies
Premium income written by our US subsidiary, Chatham Re, fell sharply following action taken to eliminate unprofitable business. Underwriting losses from earlier years' business rose sharply, however, to £9 million after recovery from an internal stop-loss arrangement. As reported earlier, this business is now discontinued.

Encouraging progress was made in all three of the subsidiary companies acquired from the Ansvar Group in 1998. In the UK, Ansvar Insurance Company produced improved underwriting results and a profitable trading result successfully reversing a trend of losses over previous years. In recognition of its strategic importance to the Group we are pleased that the Company has been assigned an improved financial strength rating by the A. M. Best Company.

In Australia and New Zealand, the EIG-Ansvar companies were able to grow strongly after removal of the previous uncertainty about their future and we are pleased with the way in which working relationships are developing with these new members of our Group. Results overall were profitable but underwriting performance in Australia was adversely affected by the Sydney hailstorm in April – the largest single loss in Australian insurance history – and by deteriorating experience from motor business.

Reserving Standards
There has been a net release of £1.7 million from the statutory provision for claims equalisation to smooth the impact of the exceptional losses that have affected our reinsurance accepted results.

A reinsurance agreement has been entered into with National Indemnity Company, a member company of the Berkshire Hathaway Group, to protect Chatham Re in the event of an increase in its liabilities as at year end 1999 in respect of liabilities arising from business written in all years prior to the sale of the company. In consequence, Ecclesiastical has no ongoing financial responsibility for any adverse development of Chatham Re's technical reserves other than through a finite retrocession from National Indemnity Company to Ecclesiastical of a small share of the reinsurance agreement.

Shortly before the closing of these accounts, the Court of Appeal handed down judgments that will have a retrospective effect on the cost of all claims that have yet to be settled involving compensation for pain, suffering and loss of amenity. Technical provisions relating to UK motor and liability claims have accordingly been strengthened in view of the likely impact of this precedent and other aspects of personal injury law reform that have yet to be resolved.

Long Term Business
Our Financial Services Division experienced another year of steady new business growth in life, pensions and collective investments which increased by 13% on the industry standard measure.

Growth in collective investments was boosted by gross sales of the new OEIC funds created on re-organisation of St Andrew Trust – net sales increased by more than 80%. Mortgage completions also advanced strongly as did sales through our specialist IFA in the equity release market, Hinton & Wild.

As the result of the continuing downward trend in investment yields it has been necessary again to reduce reversionary bonuses on participating with profit policies. Taking into account changes to capital bonuses, the overall reductions are modest for all policy terms and current average yields are still producing real returns of more than 6% for policyholders. We believe that our performance compares very well with our competitors.

All of our sales consultants take pride in the specialist understanding they bring in meeting the needs of our important customers in the clergy and a number of initiatives were taken in the year to extend the financial advice that they are well qualified to provide.

The financial services industry at large has continued to be the focus of regulatory attention. We are well advanced with Phase 2 of the Pensions Mis-selling Review and there was a satisfactory outcome to a monitoring visit conducted by the FSA on our handling of Phase 1. Our reserve to meet the outstanding cost of compensation has been increased in the light of the average amounts actually paid and possible uncertainty raised by the FSA about the basis of calculation to be used in some cases.

Finance and Investment

Following the reconstruction and subsequent voluntary liquidation of St Andrew Trust, we have extended the range of investment funds we are able to offer by the creation of new funds in the UK Equity, International and European growth sectors. These new funds are available alongside our well established Amity and Higher Income funds which are all now part of a newly launched open ended investment company, managed by Allchurches Investment Management Services.

Excluding St Andrew Trust investment income in the general fund was reduced mainly by the realisation of fewer investment gains than in 1998. Improvement in stock market values produced a significant increase in unrealised investment gains which has contributed to the growth in net assets.

Investment strategy was kept closely under review during the volatile conditions that prevailed in stockmarkets through much of the year and we are pleased that our efforts have been rewarded by another strong investment performance.

Conclusion

Early signs that results from insurance markets worldwide were beginning to strengthen in 1999 in response to increased premium rates were overshadowed by the high frequency and cost of the catastrophic losses to which I have already referred. In this very challenging environment which has come at the end of a long and difficult underwriting downturn for insurers, Ecclesiastical has pursued its strategy with confidence. Exceptional market losses have limited the improvement we have been able to achieve in underwriting performance from continuing operations but our unprofitable US excursion is behind us. Our new acquisitions have made a positive contribution. We have continued to invest strongly in new technology and have developed an e-commerce capability to ensure that we are able to take advantage of the revolutionary opportunities that this method of distribution offers to extend our service to a wider audience. Above all, our financial strength has continued to grow at a time when the security offered by an insurer should assume ever-greater importance in the eyes of policyholders.

Our vision is to be the best specialist insurer wherever we operate by becoming a modern, dynamic and customer focussed organisation. The strides we have taken in this direction have only been made through the commitment and effort of all my colleagues in our organisation and I thank them warmly for their achievements in a demanding year.

G. Doswell

Graham Doswell
Managing Director

At 6am on 29 January 1999 a fire was discovered at this Grade II listed building in rural Herefordshire. Repairs cost in excess of £1,000,000.

Directors and General Management

Directors	*	M. R. Cornwall-Jones MA, ACIS *Chairman*
	*	W. H. Yates FRICS *Deputy Chairman and Senior Independent Director*
	*	The Very Revd. N. G. Coulton BD *the Provost of Newcastle*
	*	B. V. Day OBE BA, LLB, FCII *Vice Chairman*
		G. V. Doswell FCII *Managing Director*
	*	P. J. C. Mawer MA, DPA
		G. A. Prescott BA, FCA *Group Executive Director*
	*	M. C. D. Roberts MA, CA
	*	H. H. Scurfield MA, FIA
	*	N. J. E. Sealy FCA
	*	D. R. W. Silk CBE, JP, MA
	*	The Very Revd. J. A. Simpson MA *the Dean of Canterbury*

General Management
G. V. Doswell FCII *Managing Director*
G. A. Prescott BA, FCA *Group Executive Director*
K. Bogue MA, FIA
K. J. Burdett FCII
M. Goodale BA, FIA
F. J. Holland MBCS
W. J. Lumsden FCCA
W. G. Shearn BA, FCII

Appointed Actuary
P. C. Sparkhall FIA

Company Secretary
R. W. Clayton BSc, ACIS

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Tel: 01452 528533

Company Registration Number
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19-21 Billiter Street,
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Tel: 020 7528 7364

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Stonecutter Court,
1 Stonecutter Street,
London EC4A 4TR

Registrar
Computershare Services PLC,
PO Box 82,
The Pavillions,
Bridgwater Road,
Bristol BS99 7NH

Trustee for Debenture Stock
The Law Debenture Trust Corporation plc,
Princes House,
95 Gresham Street,
London EC2V 7LY

* *Non-Executive and Independent Directors*

Directors

M. R. Cornwall-Jones
Chairman
Appointed to the Board in 1979 and became Chairman in 1993. He is Chairman of Capital Gearing Trust and a Director of other Companies. He also acts as a Trustee of a number of charities and pension funds.
Aged 67

G. V. Doswell
Managing Director
Joined the Group in 1984. Appointed to the Board in July 1995 and became Chief Executive in November 1997. His other directorships include The Baptist Insurance Company PLC, Methodist Insurance PLC, URC Insurance Company Ltd and Wright Underwriting Group Ltd. Member of the Board, Association of British Insurers.
Aged 54

N. G. Coulton
The Provost of Newcastle
Appointed to the Board in November 1997. Prior to ordination he was a solicitor. He is a Governor of Dame Allan's schools and of the Newcastle upon Tyne Church High School. He chairs the Moulton Charity and the North East branch of the Council of Christians and Jews.
Aged 59

B. V. Day
Vice Chairman
Appointed to the Board in 1981. A Director of Solicitors Indemnity Fund Ltd., Chairman of the Diocese in Europe Board of Finance. A past President of the Chartered Insurance Institute. He was made O.B.E. in the new year's honours list for services to the insurance industry.
Aged 67

P. J. C. Mawer
Appointed to the Board in 1996. He is the Secretary General of the General Synod and the Archbishops' Council of the Church of England.
Aged 52

G. A. Prescott
Group Executive Director
Appointed to the Board in 1995 and became Group Executive Director in December 1997. He serves on the investment committees of the Save the Children Fund and of the Worshipful Company of Coopers. He is a Director of Martin Currie Income and Growth Trust plc and a Trustee of Flemings' Fledgelings UK Equity and Bond Funds.
Aged 55

W. H. Yates
Deputy Chairman
Appointed to the Board in 1985 and became Deputy Chairman in March 1995. He was Senior Partner of Knight Frank and is Deputy Chairman of the Woolwich plc.
Aged 64

M. C. D. Roberts
Appointed to the Board in 1992. He was a partner in KPMG, Chartered Accountants until 1991 and subsequently Treasurer of Guildford Cathedral. He is a director of CCLA Investment Managers Ltd and also serves on the Church Commissioners Audit Committee.
Aged 61

H. H. Scurfield
Appointed to the Board in 1994. He was the Actuary and a director of the Norwich Union Insurance Group until 1992. A past President of the Institute of Actuaries. He is Vice Chairman of the Royal Shrewsbury Hospitals NHS Trust and Chairman of the Forum of Chairmen of Independent Hospices.
Aged 64

N. J. E. Sealy
Appointed to the Board in April 1999. He is the Chairman of the Smith & Williamson Group, a firm of Chartered Accountants and a banking and investment house.
Aged 62

D. R. W. Silk
Appointed to the Board in 1988. He was Warden of Radley College from 1968 until 1991. He was President of MCC from 1992 until 1994 and was Chairman of the TCCB from 1994 to 1996. He was made C.B.E. in 1996 for services to education and cricket.
Aged 68

J. A. Simpson
The Dean of Canterbury
Appointed to the Board in 1983 when he was Archdeacon of Canterbury. He is Chairman of the Board of Governors of the King's School, Canterbury.
Aged 66

Directors' Report

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

Principal activity

The principal activity of the company is that of an investment holding company. Its principal subsidiary is Ecclesiastical Insurance Office plc. That company and its life assurance subsidiary, Allchurches Life Assurance Limited, transacts most forms of general and long term insurance.

Review of the year and future developments

These are described in the chairman's statement and managing director's review of group operations.

Results

The results of the group for the year and the appropriations are shown in the consolidated profit and loss account on page 19.

Dividends

The directors do not recommend the payment of a dividend for the year ended 31 December 1999.

Directors

The directors of the company at the date of this report are stated on page 9.

The Very Revd N. G. Coulton, Mr G. V. Doswell, Mr D. R. W. Silk and Mr W. H. Yates retire by rotation and, being eligible, offer themselves for re-election.

The directors wish to convey their gratitude for the contribution made by The Very Revd J. A. Simpson who was appointed to the board in 1983 and who will retire from the board at the conclusion of 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 or date of appointment*
M. R. Cornwall-Jones	500	*500*
W. H. Yates	500	*500*
The Very Revd. N. G. Coulton, *the Provost of Newcastle*	500	*500*
B. V. Day	3,220	*3,220*
G. V. Doswell	500	*500*
P. J. C. Mawer	500	*500*
G. A. Prescott	1,000	*1,000*
M. C. D. Roberts	500	*500*
H. H. Scurfield	500	*500*
N. J. E. Sealy	500	-
D. R. W. Silk	500	*500*
The Very Revd. J. A. Simpson, *the Dean of Canterbury*	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.

Ownership

At 20 April 2000 the entire equity share capital of the company was owned by Allchurches Trust Limited.

Charitable and political donations

Charitable donations given by the company and its subsidiary undertakings in the year amounted to £4.1 million *(1998: £4.1 million)*.

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.

Employees

The company 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 company'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 the group's policy to pay creditors promptly and fully, in accordance with the terms of their contracts. The group has not adopted any particular external code.

Ecclesiastical Insurance Group plc 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.

Corporate governance

The company has no equity capital quoted on any stock exchange and therefore its operations do not come within the ambit of the Combined Code issued by the London Stock Exchange in June 1998. However the board of directors of the company intends and believes that its business is conducted according to high standards, and uses Section 1, subsection A-Directors, of the Combined Code, by which Stock Exchange quoted companies are measured, to review performance in this area.

Board of directors

The board comprises the chairman M. R. Cornwall-Jones, nine other non-executive directors and two executive directors and has ten scheduled meetings each year. The board is responsible for the overall strategic direction of the group. Executive management of the group is delegated to the managing director and general management team. The board has an established audit and compliance committee and a remuneration and appointments committee, details of which are given on page 13.

Audit and compliance committee
The audit and compliance committee comprises the following directors, appointed by the board:

M. C. D. Roberts, *Chairman*
M. R. Cornwall-Jones
B. V. Day
P. J. C. Mawer
H. H. Scurfield
N. J. E. Sealy
W. H. Yates

The committee has ten scheduled meetings each year and deals with accounting, legal and compliance, internal control and security matters, reviews the group's annual results and the work and reports of internal and external auditors.

Remuneration and appointments committee
The remuneration and appointments committee comprises the following directors, appointed by the board:

M. R. Cornwall-Jones *Chairman*
The Very Revd. N. G. Coulton
B. V. Day
P. J. C. Mawer
M. C. D. Roberts
H. H. Scurfield
N. J. E. Sealy
D. R. W. Silk
The Very Revd. J. A. Simpson
W. H. Yates

The committee meets when necessary to consider all aspects of remuneration paid to the executive directors and general management team.

The board itself determines the level of fees paid to the non-executive directors, following consultation with the managing director.

Remuneration policy
The group's objectives are broadly the same for all employees, that is to provide competitive remuneration packages, relevant for the particular market in which it operates, that will attract and retain high calibre employees and will encourage and reward superior performance.

The group's policies are aimed at meeting those objectives and ensuring that all employees are rewarded fairly for their individual contributions to its performance.

Executive directors and general management
The remuneration of the executive directors and general management team comprises a basic salary, pension contributions, annual bonuses at the discretion of the reumeration and appointments committee and certain benefits in kind, including a company car. Other available benefits in kind consist of a mortgage subsidy and private medical insurance, on the same terms as for all eligible staff..

External professional advice has been sought in the process of determining appropriate remuneration packages.

Service contracts
No director or general manager has a service contract with the company. Their terms and conditions of employment provide that in normal circumstances service may be terminated by either party by giving one month's notice.

Incentive schemes
There are no short-term annual performance-related incentive schemes which provide for 'target' or 'maximum' bonuses. There are no long-term incentive schemes or share option schemes.

Pensions arrangement
The executive directors are members of the group's defined benefits pension scheme.

In accordance with the Scheme rules, a common retirement age of 63 applies to all members, and pensionable service accrues at a rate of one-eightieth of pensionable salary for each year of service. No pension benefits are accrued on bonuses or other benefits.

Internal controls

The board is ultimately responsible for the systems of internal controls maintained by the group. The systems of internal controls are considered to be appropriate to the group and are intended to provide reasonable assurance, but not an absolute guarantee, against material errors, financial mis-statements or loss. The key features of the control systems are as follows:

- The board approves financial, business and investment strategies and plans, reviews exposure limits and then monitors the results on a regular basis.
- The group operates a comprehensive annual budgetary control system which monitors results against business plans on a monthly basis. Monthly business and investment reports are submitted to the board, and financial results are reported to the board on a quarterly basis.
- The group has an internal audit function whose role is to review and monitor the various control mechanisms. The internal audit manager reports directly to the managing director and to the chairman of the audit committee.

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

4 May 2000

Statement of Directors' Responsibilities

Company law requires the directors 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 for that period.

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 of the group and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the group's systems of internal controls, for safeguarding the assets of the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors' Report

To the members of Ecclesiastical Insurance Group plc

We have audited the financial statements on pages 17 to 40 which have been prepared under the accounting policies set out on pages 24 to 26.

Respective responsibilities of directors and auditors

As described on page 15, 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 of the general business technical account and profit on ordinary activities before taxation, are disclosed in note 21.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the company and of 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.

Deloitte & Touche
Chartered Accountants and Registered Auditors

Deloitte & Touche

Stonecutter Court,
London
EC4A 4TR

19 May 2000

19 May 2000

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1999

		Notes	1999	*1998*
TECHNICAL ACCOUNT – GENERAL BUSINESS			£000	*£000*
Gross premiums written	– continuing operations	3(a)	216,934	*176,388*
	– discontinued operations	26	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 the provision for claims	– 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		5(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		21	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

TECHNICAL ACCOUNT – LONG TERM BUSINESS		Notes	1999 £000	1998 *Restated* £000
Gross premiums written		3(b)	19,967	19,256
Outward reinsurance premiums			301	335
Earned premiums, net of reinsurance			19,666	18,921
Investment income		4	22,392	21,156
Unrealised gains on investments		4	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 the 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		5(a)	4,674	4,397
Investment expenses and charges			796	693
Tax attributable to long term business		9	986	322
Allocated investment return transferred to the non-technical account			1,799	2,167
Transfer to/(from) 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 the shareholders' long term business profits		633	-
		(17,360)	*(19,105)*
Investment income	4	46,211	*40,293*
Unrealised gains/(losses) on investments	4	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		197	*180*
Other charges	5(b)	(2,081)	*(2,610)*
Profit on sale of subsidiary undertaking	26	1,003	-
		61,317	*19,766*
Operating profit – continuing operations		48,363	*1,877*
– discontinued operations	26	(6,130)	*(2,902)*
Change in equalisation provision		1,724	*1,686*
Profit on ordinary activities before tax	3(c)	43,957	*661*
Tax on profit on ordinary activities	9	12,701	*3,937*
Profit/(loss) on ordinary activities after tax		31,256	*(3,276)*
Minority interests	19	12,791	*(218)*
Profit/(loss) attributable to shareholders		18,465	*(3,058)*
Charitable grants net of tax relief	10	2,825	*2,795*
Retained profit/(loss) for the financial year	17	15,640	*(5,853)*

Non-equity interests included in minority interests and dividends are disclosed in note 19 to the accounts.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 December 1999

	1999	1998
Profit/(loss) attributable to shareholders	18,465	*(3,058)*
Currency translation differences	2,198	*(849)*
Other movements	37	*(63)*
Total recognised gains and losses for the financial year	20,700	*(3,970)*

CONSOLIDATED BALANCE SHEET
at 31 December 1999

	Notes	1999	*1998*
ASSETS		£000	*£000*
Intangible assets			
Goodwill	11	3,832	*4,143*
Investments	12		
Land and buildings		19,841	*12,037*
Shares in group undertaking		250	*250*
Shares in participating interest		45	*68*
Other financial investments		625,566	*643,549*
Value of long term insurance business		6,000	*6,000*
		651,702	*661,904*
Assets held to cover linked liabilities	13	29,322	*25,214*
Reinsurers' share of technical provisions			
Provision for unearned premiums		19,972	*21,207*
Long term business provision	20	1,975	*2,401*
Claims outstanding		72,684	*76,147*
		94,631	*99,755*
Debtors			
Debtors arising out of direct insurance operations	14	38,489	*37,944*
Debtors arising out of reinsurance operations		36,260	*41,482*
Other debtors		11,160	*4,472*
		85,909	*83,898*
Other assets			
Tangible assets	15	10,103	*3,592*
Cash at bank and in hand		44,174	*58,881*
		54,277	*62,473*
Prepayments and accrued income			
Accrued interest and rent		4,728	*4,815*
Deferred acquisition costs		14,671	*14,137*
Other prepayments and accrued income		4,112	*5,213*
		23,511	*24,165*
Total assets		943,184	*961,552*

CONSOLIDATED BALANCE SHEET
at 31 December 1999

	Notes	1999	*1998*
LIABILITIES		£000	*£000*
Capital and reserves			
Called up share capital	16	20,000	*20,000*
Long term business reserve	17	6,000	*6,000*
General reserve	17	5,500	*5,500*
Profit and loss account	17	114,447	*96,572*
Shareholders' funds	18	145,947	*128,072*
Minority interests	19	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	20	226,795	*231,966*
Claims outstanding		249,633	*267,024*
Equalisation provision	21	3,298	*5,024*
		564,528	*586,331*
Technical provision for linked liabilities		29,322	*25,214*
Provisions for other risks and charges	22	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	23	26,369	*29,566*
		60,520	*56,391*
Accruals and deferred income		4,224	*3,553*
Total liabilities		943,184	*961,552*

PARENT COMPANY BALANCE SHEET
at 31 December 1999

	Notes	1999	*1998*
		£000	*£000*
Fixed assets: investments			
Shares in subsidiaries		156,768	*139,842*
Shares in participating interest		45	*68*
		156,813	*139,910*
Current assets			
Taxation		400	*389*
Other debtors		7	*5*
Cash at bank		5,051	*4,126*
		5,458	*4,520*
Creditors			
Amounts falling due within one year: other creditors		324	*358*
Net current assets		5,134	*4,162*
Total assets less current liabilities		161,947	*144,072*
Creditors			
Amounts falling due after more than one year			
Debenture stock		6,000	*6,000*
Corporate business loan		10,000	*10,000*
		16,000	*16,000*
Net assets		145,947	*128,072*
Capital and reserves			
Share capital	16	20,000	*20,000*
Revaluation and other reserves	17	115,848	*98,932*
Profit and loss account	17	10,099	*9,140*
Equity shareholders' funds		145,947	*128,072*

The financial statements on pages 17 to 40 were approved by the board of directors on 4 May 2000 and signed on their behalf by

M. R. CORNWALL-JONES *Chairman*
G. V. DOSWELL *Managing Director*

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 1999
(excluding long term insurance business)

	Notes	1999	1998
		£000	£000
Net cash (outflow)/inflow from operating activities	24(a)	(11,445)	8,658
Servicing of finance			
Loan interest paid		(1,658)	(1,684)
Preference dividends paid		(2,330)	(2,309)
Other interest paid		(230)	(165)
Taxation paid		(3,136)	(1,892)
Capital expenditure		(7,046)	(916)
Acquisitions and disposals	24(c)	4,268	(9,465)
Charitable grants paid		(2,825)	(2,795)
Financing			
Capital element of lease purchase rental payments		(317)	(301)
	24(b)	(24,719)	(10,869)
Cash flows were invested as follows:			
Decrease in cash holdings		(5,304)	(4,023)
Net portfolio investment			
Purchases of shares and other variable yield securities		139,770	66,276
Purchases of fixed income securities		29,599	57,027
Purchases of properties		5,292	-
Sales of shares and other variable yield securities		(144,901)	(68,785)
Sales of fixed income securities		(49,175)	(60,921)
Sales of properties		-	(443)
Net investment of cash flows		(24,719)	(10,869)
Movement arising from cash flows		(24,719)	(10,869)
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		(20,801)	17,891
Portfolio investments net of financing 1 January 1999		723,999	706,108
Portfolio investments net of financing 31 December 1999	24(b)	703,198	723,999

Accounting Policies

Basis of preparation
The financial statements have been prepared in accordance with Section 255A of, and Schedule 9A, to the Companies Act 1985. As permitted by Section 230 of the Act, a separate profit and loss account for the company is not presented. The financial statements have been prepared in accordance with applicable accounting standards and with the material recommendations of the Statement of Recommended Practice issued by the Association of British Insurers .

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 9 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 consolidatd 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 the recommendations of the company's 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.

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 estimated 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.

1 Profit after taxation

Of the group profit after taxation, £993,000 *(£1,540,000)* has been dealt with in the accounts of the parent company.

2 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*

3 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*

3 **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	46,440	*6,203*
Australia and New Zealand	802	*–*
Canada	1,222	*789*
Other overseas	(470)	*(133)*
Long term business	2,093	*(3,296)*
Continuing operations	50,087	*3,563*
Discontinued operations – United States of America	(6,130)	*(2,902)*
	43,957	*661*

(d) Net assets		
United Kingdom	116,006	*86,402*
Australia and New Zealand	5,261	*–*
Canada	13,409	*11,518*
Other overseas	(328)	*239*
Long term business	11,599	*10,139*
Continuing operations	145,947	*108,298*
Discontinued operations – United States of America	–	*19,774*
	145,947	*128,072*

4 Investment return

	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	18,042	14,756	*19,437*	*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*	*–*
	46,211	22,392	*40,293*	*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*

5 Expenses

(a) Net operating expenses

	1999 General business £000	1999 Long term business £000	*1998 General business £000*	*1998 Long term business £000*
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*

Net operating expenses include £4,633,000 *(nil)* in respect of the Ansvar group of companies.

Administrative expenses include:					
Depreciation	– property	26	–	*17*	*–*
	– owned assets	52	136	*468*	*103*
	– leased assets	318	(11)	*(16)*	*(20)*
Auditors' remuneration	– parent	2	–	*2*	*–*
	– group UK	198	29	*91*	*26*
	– group overseas	179	–	*143*	*–*
	– group fees for non-audit services	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.

(b) Other charges

	1999 General business £000	1999 Long term business £000	*1998 General business £000*	*1998 Long term business £000*
Debenture interest	780	–	*780*	*–*
Corporate business loan interest	865	–	*860*	*–*
Corporate expenditure	–	–	*960*	*–*
Amortisation of goodwill	436	–	*10*	*–*
	2,081	–	*2,610*	*–*

5 **Expenses (continued)**

(c) **Depreciation on land and buildings**

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

6 **Employee information**

The average monthly number of employees, including executive directors, during the year by geographical location was:	1999 General business No.	1999 Long term business No.	*1998 General business No.*	*1998 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*

7 **Directors' emoluments**

		1999 £	*1998 £*
Aggregate emoluments of the directors of the company		525,100	*487,281*
Highest paid director	– salary	184,272	*159,298*
	– accrued pension benefit	66,710	*68,130*
	– accrued lump sum entitlement	200,120	*204,380*
Chairman's fees		33,250	*33,250*

The chairman also received £7,640 *(£9,936)* as a director of St Andrew Trust plc and was reimbursed £10,000 *(£10,000)* in respect of the cost of running his office and the provision of secretarial assistance.

An ex gratia payment of £12,000 was made to one retiring director.

There were 2 *(2)* executive directors who were members of the group's defined benefit pension scheme during the year.

8 **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 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.

8 **Pensions (continued)**

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. 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 of the Republic of Ireland branch are dealt with by payment to an Irish life office. The total funding cost 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%.

9 **Taxation**

	Long term business technical account		Non-technical account	
	1999	*1998 Restated*	1999	*1998 Restated*
	£000	*£000*	£000	*£000*
UK Corporation tax at 30.25% *(31%)*	939	*340*	1,135	*4,174*
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*	12,701	*3,937*

Change in accounting policy

The effect of the change in accounting policy is a decrease in profits before tax of £518,000 *(£1,135,000)*, 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.

10 **Charitable grants**

Charitable grants of £4,050,000 *(£4,050,000)* gross and £2,825,000 *(£2,795,000)* net of tax relief consist of mainly gift aid payments to the ultimate parent company, Allchurches Trust Limited.

11 **Goodwill**

Goodwill is amortised on a straight line basis 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 31 December 1999	3,832	*4,143*

12 Investments

Current value	1999 General business £000	1999 Long term business £000	1999 Total £000	*1998 General business £000*	*1998 Long term business £000*	*1998 Total £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*
Investments in group undertakings						
– preference shares	250	–	250	*250*	*–*	*250*
Investments in participating interest						
– ordinary shares	45	–	45	*68*	*–*	*68*
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*
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	4,145	56,692	60,837	*4,181*	*57,843*	*62,024*
Other loans	47	453	500	*67*	*429*	*496*
	121,944	113,402	235,346	*154,886*	*109,777*	*264,663*
Total	318,165	307,401	625,566	*365,478*	*278,071*	*643,549*
Cost						
Freehold land and buildings	9,142	10,251	19,393	*3,940*	*8,296*	*12,236*
Investments in group undertakings	250	–	250	*250*	*–*	*250*
Investment in participating interest	25	–	25	*25*	*–*	*25*
Other financial investments	347,255	168,643	515,898	*310,817*	*164,509*	*475,326*
	356,672	178,894	535,566	*315,032*	*172,805*	*487,837*
Debt and other 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*

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.

13 Assets held to cover linked liabilities

	1999 Current value £000	1999 Historical cost £000	*1998 Current value £000*	*1998 Historical cost £000*
Group	29,322	20,682	*25,214*	*18,214*

14 Debtors arising out of direct insurance operations

	1999 General business £000	1999 Long term business £000	1999 Total £000	*1998 General business £000*	*1998 Long term business £000*	*1998 Total £000*
Group						
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*

15 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
Provided in the year	2,377
Exchange	46
Disposals	(843)
At 31 December 1999	10,764
Net book value at 31 December 1999	
General business	9,311
Long term business	792
	10,103
Net book value at 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.

16 Share capital

	1999 Group £000	1999 Parent £000	*1998 Group £000*	*1998 Parent £000*
Authorised, allotted, issued and fully paid Ordinary share capital				
20,000,000 shares of £1 each	20,000	20,000	*20,000*	*20,000*

17 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	5,500	96,572	108,072
Currency translation differences	–	–	–	2,198	2,198
Other movements	–	–	–	37	37
Transfer from profit and loss account	–	–	–	15,640	15,640
Balance 31 December 1999	–	6,000	5,500	114,447	125,947
Parent					
Balance 1 January 1999	98,932	–	–	9,140	108,072
Revaluation of group undertakings	16,916	–	–	–	16,916
Transfer from profit and loss account	–	–	–	959	959
Balance 31 December 1999	115,848	–	–	10,099	125,947

Included in the group profit and loss account are £79,701,000 *(£58,608,000)* of unrealised investment gains which the directors do not regard as distributable.

18 Reconciliation of movements in group shareholders' funds

	1999 £000	*1998 £000*
Profit/(loss) for the financial year	18,465	*(3,058)*
Other recognised gains and losses	2,235	*(912)*
	20,700	*(3,970)*
Charitable grants net of tax relief	(2,825)	*(2,795)*
Net movement in shareholders' funds	17,875	*(6,765)*
Opening shareholders' funds	128,072	*134,837*
Closing shareholders' funds	145,947	*128,072*

19 Minority interests

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

	Profit and Loss Account		Balance Sheet	
	1999	*1998*	1999	*1998*
	£000	*£000*	£000	*£000*
Equity interests				
St Andrew Trust plc				
Ordinary shares of £1 each	10,450	*(2,535)*	–	*51,575*
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	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 ½ per cent
2008 to 2012	Nil

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

20 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.

21 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)*.

22 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*

23 Other creditors including taxation and social security

	1999	*1998*
	£000	*£000*
Amounts falling due within one year:		
Other creditors	6,430	*8,218*
Taxation	2,899	*4,370*
	9,329	*12,588*
Amounts falling due after more than one year:		
Debenture stock	6,000	*6,000*
Corporate business loans	10,000	*10,000*
Other creditors	1,040	*978*
	17,040	*16,978*
Total	26,369	*29,566*
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 the company. 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 loan is secured on the company'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)*.

24 Notes to the cash flow statement

	1999 £000	*1998 £000*
(a) Reconciliation of profit on ordinary activities before tax to net cash inflow from operating activities		
Profit on ordinary activities before tax	43,957	*661*
Depreciation charges	396	*469*
Amortisation of fixed interest securities	185	*516*
Amortisation of goodwill	436	*10*
Unrealised gains on investments	(15,886)	*18,591*
(Decrease)/increase in net general insurance technical 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	1,658	*1,849*
Other interest payable	230	*165*
Realised investment gains	(27,523)	*(20,817)*
Loss on sales of tangible fixed assets	28	*11*
Movement in other debtors and creditors	2,160	*(3,955)*
Profit on sale of subsidiary undertaking	(1,003)	*–*
	(11,445)	*8,658*

(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	Exchange and other non-cash movements £000	At 31 December 1999 £000
Cash at bank and in hand	58,881	(5,304)	–	(1,897)	(6,823)	(683)	44,174
Shares and other variable yield securities	378,954	(5,131)	(11,854)	–	25,705	2,591	390,265
Fixed income securities	264,913	(19,576)	–	(28,254)	3,687	14,826	235,596
Land and buildings	12,037	5,292	–	–	2,253	259	19,841
Assets held to cover linked liabilities	25,214	–	–	–	4,108	–	29,322
Borrowing due after 1 year	(16,000)	–	–	–	–	–	(16,000)
	723,999	(24,719)	(11,854)	(30,151)	28,930	16,993	703,198

(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

25 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*

26 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 19.

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			*1998*		
	Continuing operations £000	Dis-continued operations £000	Total £000	*Continuing operations £000*	*Dis-continued operations £000*	*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	44,224	1,987	46,211	*37,407*	*2,886*	*40,293*
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	197	-	197	*180*	*-*	*180*
Other charges	(2,081)	-	(2,081)	*(2,610)*	*-*	*(2,610)*
Profit on sale of subsidiary undertaking	-	1,003	1,003	*-*	*-*	*-*
	50,087	(6,130)	43,957	*3,563*	*(2,902)*	*661*

26 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

27 Capital commitments

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

28 Parent, subsidiary and associated undertakings

Parent company

The company's ultimate parent and controlling company is Allchurches Trust Limited incorporated in Great Britain. Copies of the accounts for the company and the parent company are available from the registered office as shown on page 9. All the subsidiaries listed are included within the consolidated financial statements. Voting rights are in line with the holdings of ordinary shares.

Subsidiary undertakings	Share capital	Holding of shares by: Parent	Subsidiary
Incorporated and operating in Great Britain, engaged in investment, insurance and financial services or other insurance related business:			
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	0.6%	
Ecclesiastical Group Asset Management Limited	Ordinary shares	100%	
The Churches Purchasing Scheme Limited	Ordinary shares	100%	
Ecclesiastical Underwriting Management Limited	Ordinary 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 (Insurance Brokers) Limited	Ordinary shares		100%
Eccint Limited	Ordinary shares		100%
Hinton & Wild (Home Plans) Limited	Ordinary shares	100%	

28 **Parent, subsidiary and associated undertakings (continued)**

Subsidiary undertakings	Share capital	Holding of shares by: Parent	Subsidiary
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 undertakings			
Incorporated and operating in Great Britain, engaged in insurance business:			
Wright Underwriting Group Limited	100,000 issued ordinary shares of £1 each	25%	

In addition, there are four other wholly owned subsidiary undertakings whose assets and contribution to group income are not significant. Ecclesiastical Insurance Office plc also holds 250,000 6% Non-Cumulative Redeemable Preference shares in Allchurches Mortgage Company Limited which is a wholly owned subsidiary of Allchurches Trust Limited.

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 company under common control. 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.

Branches and Agencies – United Kingdom

Belfast	*Branch Manager:*	W. C. McGrath ACII
	Office:	Chamber of Commerce House, 22 Great Victoria Street, Belfast BT2 7LX
	Tel:	028 90 233130
Birmingham	*Branch Manager:*	S. N. Willcock
	Office:	Berwick House, 35 Livery Street, Birmingham B3 2PB
	Tel:	0121 200 3200
Bristol	*Branch Manager:*	C. J. Langton
	Office:	Kings Court, King Street, Bristol BS1 4EE
	Tel:	0117 926 6211
Cambridge	*Branch Manager:*	A. M. M. Fraser ACII
	Office:	Abbeygate House, 164-167 East Road, Cambridge CB1 1DB
	Tel:	01223 460611
Cardiff	*Branch Manager:*	C. J. Langton
	Office:	5th Floor, Riverside House, 31 Cathedral Road, Cardiff CF1 9HB
	Tel:	029 2022 3983
City	*City Manager:*	D. S. Bullock ACII
	Office:	19-21 Billiter Street, London EC3M 2RY
	Tel:	020 7528 7363
East Grinstead	*Branch Manager:*	D. M. F. Byrne FCII
	Office:	Kings House, 13-21 Cantelupe Road, East Grinstead, Sussex RH19 3BE
	Tel:	01342 410281
Edinburgh	*Branch Manager:*	T. G. Lawrie ACII
	Office:	55 North Castle Street, Edinburgh EH2 3QA
	Tel:	0131 225 5422
Harrogate	*Branch Manager:*	R. W. Marshall FCII
	Office:	7 Cambridge Road, Harrogate, North Yorkshire HG1 1PB
	Tel:	01423 524221

Branches and Agencies – United Kingdom

Manchester	*Branch Manager:*	J. M. Lindsey
	Office:	Lincoln House, 1 Brazennose Street, Manchester M2 5FJ
	Tel:	0161 832 2616
Southampton	*Branch Manager:*	D. M. F. Byrne FCII
	Office:	Adyar House, 32 Carlton Crescent, Southampton S015 2YP
	Tel:	023 8063 4488
Subsidiaries:		
Ansvar Insurance Company Limited	*General Manager:*	T. P. H. Godfrey ACII
	Office:	Ansvar House, St Leonards Road, Eastbourne BN21 3UR
	Tel:	01323 737541
Ecclesiastical Underwriting Management Limited	*Director and Underwriter:*	K. P. Cannon FCII
	Office:	Suite 10, 2nd Floor, London Underwriting Centre, 3 Minster Court, Mincing Lane, London EC3R 7DD
	Tel:	020 7283 0666
London Market Agencies:		
Admiral Underwriting Agencies	*Managing Director:*	C. R. Scoones
	Office:	No. 1 Seething Lane, London EC3N 4AX
	Tel:	020 7481 2464
Gloucester Underwriting Agency Limited	*Chairman:*	N. C. Herbert
	Office:	2nd Floor, 37-39 Lime Street, London EC3M 7AY
	Tel:	020 7929 2266
Wright Underwriting Group Limited	*Managing Director:*	N. S. Oram
	Office:	5th Floor, 40 Lime Street, London EC3M 5BS
	Tel:	020 7621 1224

Branches and Agencies – International

Canada	*Manager for Canada:*	S. M. Oxley
	Chief Office:	2300 Yonge Street, Toronto, Ontario M4P 1E4
	Manager:	H. Meek
	Maritimes Office:	1969 Upper Water Street, Halifax, Nova Scotia B3J 3R7
	Manager:	S. E. Bloomer
	British Columbia Office:	545 Clyde Avenue, West Vancouver, British Columbia V7T 1C5
	Provincial General Agent:	R. C. Anthony
	Newfoundland:	c/o Anthony Insurance Incorporated, PO Box 8130, Kenmount Road, St John's, Newfoundland A1B 3N2
	Provincial General Agent:	Johanne Lepine
	Quebec:	Aon Parizeau Incorporated, 500 Rene Levesque Blvd West, Montreal, Quebec H2Z 1Y4
Republic of Ireland	*Manager:*	D. E. Campbell
	Office:	65 Fitzwilliam Square, Dublin 2
Malta	*Underwriting Agents:*	SMS Insurance Agency Ltd., Villa Venezia, Ta' Xbiex Terrace Ta' Xbiex MSD11
Greece	*Underwriting Agents:*	Manthos J. Zoides & Co. S.A., 5 Stadiou Street, Athens 105 62
Cyprus	*Underwriting Agents:*	John Makriyiannis & Son Ltd., Schoolteachers' Building, 18 Makarios III Avenue, PO Box 21493, CY-1509 Nicosia
	Underwriting Agents:	G. A. P. Vassilopoulos Insurance Agencies Limited, 20 Strovolos Avenue, PO Box 23897, CY-1687 Nicosia
Holland	*Underwriting Agents:*	W. A. Hienfeld B.V., Drentestraat 5, 1083 H. K. Amsterdam

Branches and Agencies – International

Subsidiaries:

EIG–Ansvar Australia	*Managing Director:*	John Peberdy
	Head Office:	20 Collins Street, Melbourne, 3000
	Branch Manager:	Ken Renfrey
	Victoria:	20 Collins Street, Melbourne, 3000
	Branch Manager:	Allan Smith
	New South Wales:	PO Box 2403, 419 Church Street, North Parramatta, 1750
	Branch Manager:	Darryl Witherington
	Queensland:	PO Box 747, 157 Ann Street, Brisbane, 4000
	Branch Manager:	John Jones
	South Australia:	PO Box 338, 202 Glen Osmond Road, Fullarton, 5063
	Branch Manager:	Kym Bennetts
	Western Australia:	PO Box 840, 8 Clive Street, West Perth, 6872
EIG–Ansvar New Zealand	*General Manager:*	Graham Creahan
	Head office:	PO Box 7042, Wellesley Street, Auckland, 1036
	Manager:	Craig Gudsell
	South Island Office:	Kenton Chambers, PO Box 22, 190 - 192 Hereford Street, Christchurch

Financial Summary

	1999 £000	1998 £000	1997 £000	1996 £000	1995 £000	1994 £000
Premium income						
Gross premiums written						
General business	235,647	204,051	202,245	189,100	175,407	162,672
Long term business	19,967	19,256	18,338	17,470	15,929	17,636
Total	255,614	223,307	220,583	206,570	191,336	180,308
Net premiums written						
General business	166,929	141,074	138,319	125,574	109,673	102,618
Long term business	19,666	18,921	18,024	17,228	15,670	17,334
Total	186,595	159,995	156,343	142,802	125,343	119,952
Summary of results						
Profit on ordinary activities before tax	43,957	661	32,770	44,984	41,838	1,988
Profit/(loss) on ordinary activities after tax	31,256	(3,276)	27,839	40,072	39,008	(1,708)
Minority interests	12,791	(218)	6,986	13,336	8,519	(204)
	18,465	(3,058)	20,853	26,736	30,489	(1,504)
Charitable grants net of tax relief	2,825	2,795	2,781	2,043	1,685	1,340
Retained profit/(loss) for the financial year	15,640	(5,853)	18,072	24,693	28,804	(2,844)
Capital and reserves						
Share capital	20,000	20,000	20,000	20,000	20,000	20,000
Long term insurance business reserve	6,000	6,000	6,000	6,000	6,000	6,000
General reserve	5,500	5,500	5,500	5,500	5,500	5,500
Retained profits	114,447	96,572	103,337	85,854	63,274	39,492
	145,947	128,072	134,837	117,354	94,774	70,992

The profit on ordinary activities before tax for 1998 and prior years' have been restated to comply with the change in accounting policy resulting from the adoption of FRS 16 'Current Taxation'.

Notice of Meeting

NOTICE is hereby given that the Annual General Meeting of the Ecclesiastical Insurance Group plc will be held at Beaufort House, Brunswick Road, Gloucester GL1 1JZ on Thursday 29 June 2000 at 12.30 p.m. to transact the following ordinary business of the company:

1. To receive and adopt the director's report and statement of accounts for the year ended 31 December 1999 and the report of the auditors thereon.

2. To re-elect The Very Revd N. G. Coulton as a director.*

3. To re-elect Mr G. V. Doswell as a director.*

4. To re-elect Mr D. R. W. Silk as a director.*

5. To re-elect Mr W. H. Yates as a director.*

6. To consider the declaration of a dividend.

7. To re-appoint Deloitte & Touche as auditors and to authorise the directors to fix their remuneration.

By order of the board

R. W. Clayton
Secretary

Gloucester
4 May 2000

*Brief biographies of the directors seeking re-election are shown on page 10.

A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not also be a member.

This notice is sent for information to the holders of the 13% Debenture Stock 2018.