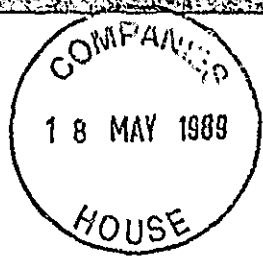
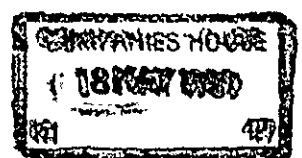
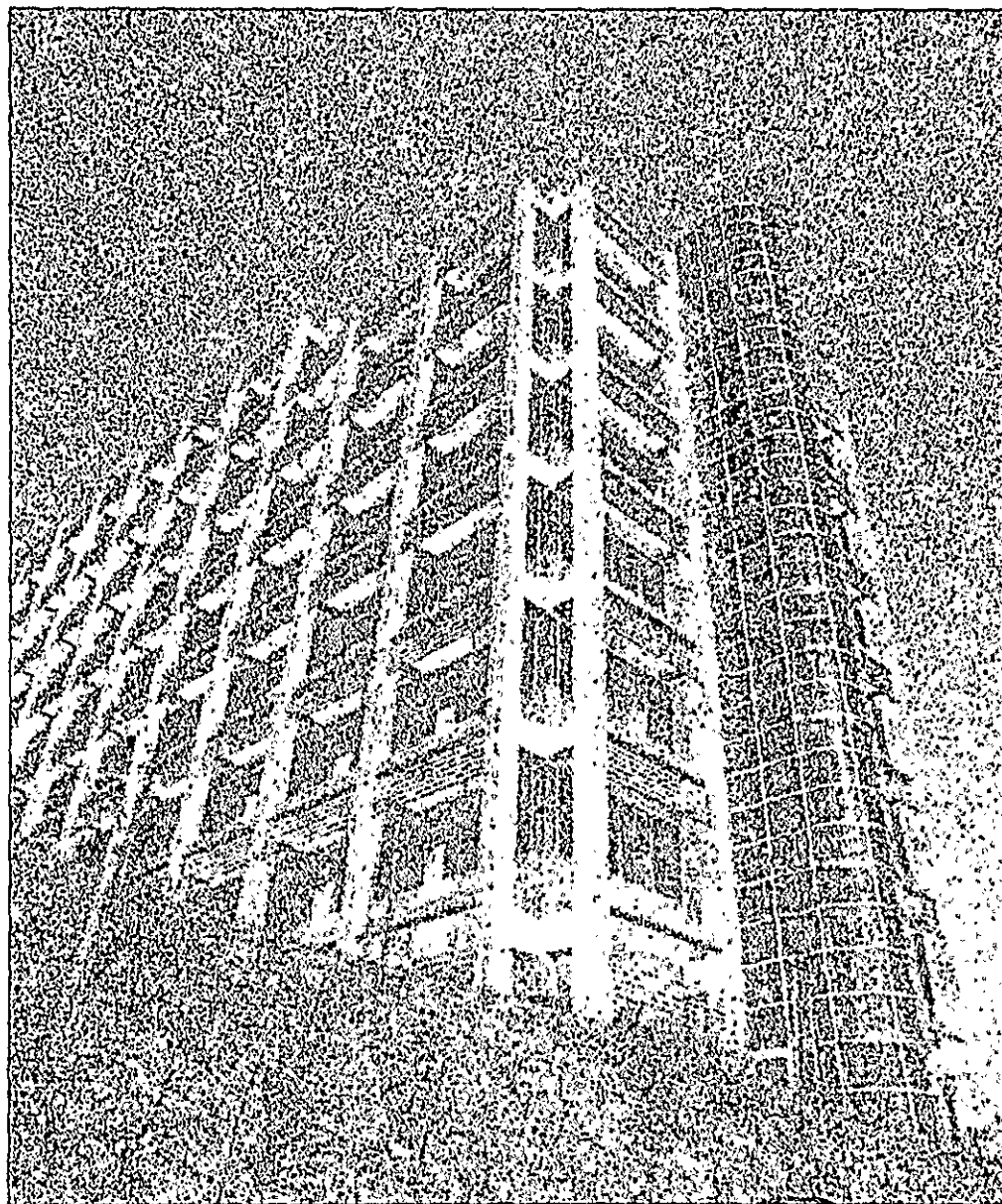


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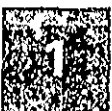
REPORT & ACCOUNTS



1988

REPORT AND ACCOUNTS 1988

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BOARD AND MANAGEMENT

President

R J W Crabbe FIA

Board of Directors

D H Radley FIA *Chairman*

Dr S B Callisch

N Hood

The Rt Hon the Earl Howe

R A F Ostrine FIA

B E Radley FIA ASA

Dr H R Studer

Management

B E Radley FIA ASA
Managing Director

G V Budd FIA

General Manager

J D Fox FCA

General Manager and Secretary

R A Halligan MBIM

General Manager

R K Muddle FCII

General Manager

R A F Ostrine FIA

General Manager and Actuary

Registered Office

Provident Way Basingstoke

Hampshire RG21 2SZ

Tel: Basingstoke (0256) 470707

STATEMENT BY THE CHAIRMAN

"I re-echoed my statement last year that the Company was intending to focus on three main sales channels and that considerable restructuring of the Company had taken place. Such a major change of direction inevitably brought difficulties but nevertheless 1988 saw us move very positively along our new path.

Estate Agents

Our Estate Agency Division was started in the spring of 1987 and became fully functional in January 1988. We have now successfully appointed independent estate agents with over 400 branches nationwide, to act as tied representatives of the Company. These agents can offer their customers not only their local property knowledge and expertise, but also Provident Life's mortgage related insurance products and a computer based mortgage matching service.

Each of the estate agents has been provided with a computer which utilises software regularly updated by a head office system development team. This enables mortgage funds, reserved for Provident Life's use, to be chosen from a range of lenders. Quotations for mortgages and policies are easily produced in an attractive format. Trained Mortgage and Insurance Advisers in each estate agent's office advise customers on the selection of insurance policies and mortgages. These advisers are supported by some 40 Area Sales Managers who assist with training and appropriate practical support.

Professional Advisers

The Professional Advisers' Division has been set up to concentrate on marketing commission-free products to fee charging advisers such as accountants. Our research in early 1987 indicated clearly that this was likely to be an expanding and important source of business. Recent events in the regulatory field are emphasising the correctness of this decision.

The division was launched officially on 1 July, 1988 with a range of individual pension policies marketed under the banner "Gold Pensions" commission

free." Gold Pensions are based on a unique charging philosophy: the contracts carry no commission, have a totally open charging structure and impose no early termination penalties. This means that they are ideally suited to the needs of fee based advisers and their clients. Our view of the competitiveness of the products is supported by the December issue of Pensions Management, in which Provident Life was quoted as coming the nearest to sweeping the board in a survey of projected results.

Existing Customers

The Customer Services Division is responsible for liaison with the Company's existing customers other than those introduced by independent advisers. Its function is to encourage customer loyalty by giving a high level of continuing service and by offering additional Provident Life policies when appropriate. Customer Services' personnel are currently undertaking detailed research to establish more clearly the requirements of existing customers. A new customer database has been set up to assist in this. The research findings will enable us to establish the most suitable basis for the future operation of services to existing customers.

Sales

Given the tremendous amount of new ground we have broken in 1988 we are pleased to have maintained annual premium new business sales at close to their 1987 levels. This performance has to be considered against the fact that only about 30 per cent of our 1988 new business came from what had previously been our major business sources. We now look forward to major expansion through the development of our carefully selected sales channels.

Computers

In 1988 we made a substantial additional commitment to new computer equipment and the development of new systems. This is an essential part of the action necessary for Company growth in the highly competitive life assurance marketplace. At the end of 1987, after many months of research and planning, we made the decision to begin the

conversion of our computer systems from ICL hardware to that of IBM. To change from one manufacturer to another requires the eventual re-writing of every system but we were convinced that this was the correct decision for us. In January 1988 work started on the rebuilding of the computer suite. By March it had been completed and the installation of the new IBM equipment started.

The major task of loading the new IBM operating software began in March and was completed within six weeks. New life and pensions business software has also been installed. The re-specifying of systems is now under way but until it is completed in some two years' time, we will continue to operate both the ICL and the new IBM equipment.

Investments

Provident Life's investment team had another very successful year. The Company's progress in 1988 is due not only to its flexible and innovative products but also to the solid investment performance of its funds. In the 10 years ended December 1988 the unit price of Provident Life's Unit Fund averaged a growth rate of 15.4 per cent. per annum. It is remarkable that this was achieved despite the October 1987 London stock market crash. In fact during 1988, as in recent years, the Unit Fund frequently appeared as the top performing life managed fund in surveys published by the monthly magazines Money Management and Planned Savings.

Also worthy of special mention is our group pension managed fund which topped the one year performance tables published in October 1988 by independent employee benefit consultants, The Wyatt Co. (UK) Ltd. and William M. Mercer Fraser Ltd.

Financial Services Act 1986

I cannot let the year pass without commenting on the effects of the Financial Services Act on the life and pensions industry.

One of its most visible effects has been to saddle us with an extensive, bureaucratic system of detailed control. This is being

done, ostensibly, in order to protect the consumer from an industry which has always sought voluntarily to treat its customers equitably. The Insurance Ombudsman Scheme, for example, existed for a number of years on a voluntary basis and was a sign of the industry's continual quest to safeguard the consumer. The voluntary code of conduct was another

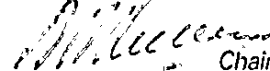
We are, and always have been, completely in favour of measures which provide genuine additional protection. Under the new regime, however, not only are customers being deluged with a mass of printed matter which is often irrelevant to their needs, but much of the new regulatory system has itself been developed on a basis which is anti-competitive and therefore contrary to the customer's real interests.

Virtually all meaningful comparisons, either by quotation or advertisement are now banned. The Life Assurance and Unit Trust Regulatory Organisation has even ruled that any attempt by us to compare our products directly with those of our competitors is the giving of investment advice, which we are not licensed to give.

The life assurance industry has traditionally adopted a responsible attitude in its dealings with the consumer. The regulations arising from the Financial Services Act have simply burdened the life companies with tens of millions of pounds of extra expenditure which, in due course, will have to find its way into increased premium rates.

Staff

We have made much progress in 1988 and none of it would have been possible without the efforts of all our employees at every level in the Company. The employees are the Company's most vital asset and we are continually looking for additional ways to increase participation and involvement and to promote an open style of management. On behalf of my fellow directors and myself, I offer to all our staff my thanks and with them look forward to the future of the Company with confidence.


Chairman

DIRECTORS' REPORT

for the year ended 31 December 1988

The Directors present their report for the one hundred and eleventh year of the Company's business.

Principal Activity

The principal activity of the Company is the transaction of long term insurance business in the United Kingdom and associated investment activities.

Long Term Insurance

New long term business written during the year (after deduction of reinsurance) was as follows

	1988	1987
Number of policies	12,796	15,944
	£000	£000
Annual premiums	6,111	6,482
Single premiums	4,436	13,216
Sums assured	304,299	308,538
Annuities per annum	501	573

Premiums for the year amounted to £35,276,130 (1987 - £42,270,477)

Bonus declarations--Bonuses were declared at the following rates on with-profits policies in the Participating Fund by way of reversionary bonuses for the year 1988 and by way of a terminal bonus in respect of 1989.

Life assurance policies:

- (i) Current compound bonus series - £5.00 per cent. reversionary bonus and a terminal bonus of 40 per cent. of attaching bonuses on all policies becoming claims by death or maturity during 1989.
- (ii) Closed simple bonus series - £6.00 per cent. reversionary bonus and a final bonus on policies becoming claims by death or maturity in 1989. For normal whole life or endowment assurance policies the final bonus will be 35 per cent. of all previous bonus additions.
- (iii) On unisex with-profits Plusmortgage contracts - 9 per cent. of the average number of units attaching throughout 1988.

Policies in the Pensions Business Fund compound bonus series:

- (i) On individual pure endowment and term assurances and the Selective Pension Plan - £4.85 per cent. reversionary bonus and on maturity a terminal bonus of 50 per cent. of attaching bonuses.
- (ii) On all other pure endowment assurances - £5.10 per cent. reversionary bonus.
- (iii) On unisex with-profits policies - 9.5 per cent. of the average number of initial units and 13 per cent. of the average number of ordinary units attaching throughout 1988 for Pensionplus, and 13.5 per cent. of the average number of units attaching throughout 1988 for Plusfunds.

The annual valuation of the liabilities of the long-term insurance business as at 31 December 1988 has been made by the Actuary. Life assurances were valued by the net premium method using the A. 1967-70 mortality table adjusted in certain cases for female lives and interest rates of 3½ per cent. per annum for with-profits assurances, 4¼ per cent. for simple bonus additions thereon, 3¾ per cent. for compound bonus additions thereon, and 5 per cent. for without-profits assurances, with additional reserves for some older policies. For life assurances the premiums were modified in order to reduce new business strain.

Immediate annuities were valued on the a(90) mortality table and 7½ per cent interest in the Pensions Business Fund and the General Annuity Fund.

Pure endowment assurances in the Pensions Business Fund were valued by the net premium method at 5½ per cent. for with-profits policies and 7½ per cent. for without-profits policies, the premiums being modified in order to reduce the new business strain. For linked assurances the reserves were equal to the value of the underlying investment units plus additional reserves where appropriate. Credit was taken for the Long Term Insurance Funds at the value shown in the balance sheet.

The valuation showed a surplus at the end of the year as follows:

	1988 £	1987 £
Balance of surplus brought forward from previous year	5,524,769	4,487,968
Transferred to Shareholders' Fund	(43,049)	—
Transferred from investment reserve	5,010,481	11,311,533
Capital appreciation on unallocated linked assets	342,988	487,604
Surplus/(deficit) arising in year	2,534,826	(626,902)
Surplus at the end of the year	<u>13,370,015</u>	<u>15,660,203</u>

Acting on the advice of the Actuary, the Directors have allocated the surplus as follows:

	1988 £	1987 £
To policyholders	10,007,742	10,135,434
Balance of surplus carried forward unappropriated	3,362,273	5,524,769
	<u>13,370,015</u>	<u>15,660,203</u>

Dividend

No dividends were paid during 1988.

The Directors do not propose to recommend a final dividend.

Board

The Board of Directors of the Company is as set out on page 2. Mr. Nicholas Hood and The Rt. Hon. the Earl Howe were appointed to the Board on 25 March 1988.

Interests of Directors

According to the Register of Directors' Share Interests none of the Directors had any interest in the shares of group companies at 31 December 1988.

Employees

The average number of persons employed during the year under contracts of service in each week was 520 (1987—611) and the aggregate remuneration for the year was £7,461,281 (1987—£7,707,669).

It is the Company's policy to give full and fair consideration to applications for employment by disabled persons having regard to their particular aptitudes and abilities; to continue, as appropriate, the employment of staff who become disabled and to provide equal opportunities for the training and career development of disabled employees

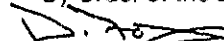
Throughout 1988 the Company continued its policy of employee involvement by providing information on matters of concern to them as employees, by meeting their trade union representatives and by encouraging employees to be aware of the financial and economic factors affecting the Company's performance.

Other matters

Charitable donations amounting to £6,560 (1987 £4,546) were made by the Company during the year.

A resolution will be put to the members of the Company at the Annual General Meeting proposing the re-appointment of Peat Marwick McLintock as auditors for the ensuing year.

By Order of the Board


Secretary

Provident Way, Basingstoke RG21 2SZ
6 April 1989

LONG TERM INSURANCE BUSINESS

Revenue Account

for the year ended 31 December 1988

	Note	1988 £000	1987 £000
Premiums	1	35,276	42,270
Investment income		19,981	17,925
Change in value of investments of Unit Funds (after adjustment for taxation)		3,936	(1,278)
Transferred from investment reserve	2	5,011	11,311
		<u>64,204</u>	<u>70,228</u>
Claims incurred:			
Death	3	4,522	3,626
Maturity		9,164	9,612
Surrenders		12,002	10,919
Annuities		1,558	1,441
Commission		5,634	4,499
Expenses		15,818	13,838
Taxation	8	(1,113)	30
		<u>47,585</u>	<u>43,965</u>
Increase in funds during year		16,619	26,263
Funds at beginning of year		240,805	214,542
Transfer to Shareholders' Fund	9	(43)	—
Funds at end of year		<u>257,381</u>	<u>240,805</u>

Balance Sheet

as at 31 December 1988

	Note	1988 £000	1987 £000
Funds			
Long term insurance funds		257,381	240,805
Investment reserve		28,656	28,567
		<u>286,037</u>	<u>269,372</u>
Investments			
British government securities		84,720	92,019
Other fixed interest securities		12,382	9,374
Preference shares		2,003	1,228
Ordinary shares		112,426	98,443
Deposits		1,896	6,092
		<u>213,427</u>	<u>207,156</u>
Mortgages on house property and other loans within the United Kingdom		37,220	39,462
Freehold property including Company's offices		27,734	17,823
		<u>278,381</u>	<u>264,441</u>
Other Assets			
Current assets	13	11,385	9,745
		<u>289,766</u>	<u>274,186</u>
Other Liabilities			
Current liabilities	14	3,729	4,814
		<u>286,037</u>	<u>269,372</u>

The notes and signatures on pages 10 to 16 are an integral part of these accounts.

SHAREHOLDERS' FUND

Profit and Loss Account

for the year ended 31 December 1988

	Note	1988 £000	1987 £000
Investment income		2,633	2,590
Other income		72	21
		<u>2,705</u>	<u>2,611</u>
Expenses		76	41
Profit before taxation		2,629	2,570
Taxation	8	1,062	890
Profit after taxation		1,567	1,680
Dividend		—	1,584
Transfer from Long Term Funds	9	43	—
Transferred to retained profits and reserves		<u>1,610</u>	<u>96</u>

Balance Sheet

as at 31 December 1988

	Note	1988 £000	1987 £000
Capital and Reserves			
Share capital	15	26,400	26,400
Retained profits and reserves		2,587	977
Investment reserve		2,126	2,682
		<u>31,113</u>	<u>30,059</u>
Long Term Insurance Funds			
Per separate balance sheet		286,037	269,372
		<u>317,150</u>	<u>299,431</u>
Investments			
British government securities		22,769	22,338
Preference shares		1,108	678
Ordinary shares		1,635	1,437
Deposits		1,417	1,202
Market value		<u>26,929</u>	<u>25,655</u>
Other Assets			
Freehold property		—	1,285
Mortgages		1,199	—
Loan to holding company		2,830	2,830
Current assets	13	868	734
		<u>31,826</u>	<u>30,504</u>
Other Liabilities			
Current liabilities	14	713	445
		<u>31,113</u>	<u>30,059</u>
Long Term Insurance Net Assets			
Per separate balance sheet		286,037	269,372
		<u>317,150</u>	<u>299,431</u>

The notes and signatures on pages 10 to 16 are an integral part of these accounts.

ACCOUNTING POLICIES

A Disclosure requirements

The accounts are drawn up in accordance with part VII, chapter II of, and schedule 9 to, the Companies Act 1985 and advantage is taken of certain disclosure exemptions.

B Investments

(i) Listed securities have been valued at middle market value less accrued interest at 31 December 1988. The market value of unlisted securities has been estimated by the Directors

(ii) Mortgages and other loans are included at the amounts advanced.

(iii) Properties are shown at open market value less estimated selling costs. All valuations have been carried out within the last three years by external valuers who are all chartered surveyors. Where properties were not valued by them at 31 December 1988, the Directors consider the value at which they are included in the accounts to be fair. No depreciation is charged on freehold properties, all of which are held as investments.

C Investment reserve

The following items are dealt with through the investment reserve:

- (i) The net unrealised appreciation of the value of investments, as defined in B above, over cost at the year end and the profits and losses realised on the sale of investments (adjusted where appropriate for taxation thereon).
- (ii) The cost of dealing in investments.
- (iii) Expenditure on computer equipment, office furniture, additional motor cars, restructuring and certain other items.

Amounts equal to this expenditure are transferred from the Long Term Insurance Fund on the following bases.

Computer equipment	over its estimated useful life
Office furniture	in the year of purchase
Additional motor cars	in the year of purchase
Restructuring and certain other costs	in the year incurred

The balance of expenditure remaining unamortised is retained as a deduction within the investment reserve. Expenditure on replacement motor cars is charged directly to expenses in the revenue account.

D Premiums

Premiums are recognised for accounting purposes as they fall due.

E Investment income

Investment income includes the following items:

- (i) dividends received during the year, including related tax credits, together with accruals computed by reference to ex-dividend dates.
- (ii) interest from mortgages, deposits, fixed interest and preference securities, accrued on a day-to-day basis.
- (iii) interest paid on deposits etc., accrued on a day-to-day basis.

F Claims

Claims are recognised for accounting purposes on the following bases:

- (i) deaths—as notified to the Company
- (ii) maturities—as they fall due for payment

REPORT OF THE AUDITORS

Foreign currency translation

Assets and liabilities in foreign currencies held at the year end are translated at rates prevailing at that time. Transactions during the year are translated at the appropriate rate ruling at the time of the transaction.

Exchange differences relating to investments are dealt with in the investment reserve.

Staff pension scheme

The Company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company in an independently administered scheme. Contributions to the scheme are charged to the long term revenue account so as to spread the cost of pensions over employees' working lives with the Company. The contributions are determined by a qualified actuary on the basis of annual valuations using the attained age method. The actuary is also the Company's Actuary.

Investment in subsidiary

During the year the Shareholders' Fund acquired 100 per cent. of the ordinary share capital of Provident Life (Pension Trustees) Limited. This investment has been shown in the balance sheet, as part of sundry debtors, under the equity method of accounting.

Consolidated accounts have not been produced because, in the opinion of the Directors, the amounts involved are not material.

To the members of Provident Life Association Limited

We have audited the financial statements set out on pages 8 to 16 in accordance with Auditing Standards.

In our opinion, the financial statements have been properly prepared in accordance with the provisions of the Companies Act 1985 applicable to insurance companies.

Peat Marwick McLintock

Chartered Accountants

London
6 April 1989

NOTES TO THE ACCOUNTS

1 Premiums

	1988 £000	1987 £000
(i) Analysis of gross premiums:		
Gross premiums receivable	35,954	42,878
Reassurance ceded	678	608
Net premiums receivable	<u>35,276</u>	<u>42,270</u>

All premium income arises from the transaction of insurance business within the United Kingdom.

	1988 £000	1987 £000
(ii) Analysis by class of business:		
Life and annuity: non-linked	19,497	20,630
linked	15,650	21,536
Permanent health	129	104
	<u>35,276</u>	<u>42,270</u>

(iii) Analysis of annualised new business premiums:

	1988		1987	
	Annual Premiums £000	Single Premiums £000	Annual Premiums £000	Single Premiums £000
Life and annuity: non-linked	763	1,723	1,751	1,402
linked	5,333	2,713	4,701	11,814
Permanent health	15	—	30	—
	<u>6,111</u>	<u>4,436</u>	<u>6,482</u>	<u>13,216</u>

2 Transfer from Investment Reserve (Long term insurance)

The sum of £5,011,000 (1987—£11,311,000) transferred to the Long Term Insurance Fund is made up as follows:

	1988 £000	1987 £000
Gross transfer	7,100	13,000
Expenses written off	2,089	1,689
	<u>5,011</u>	<u>11,311</u>

The expenses written off relate to the amortisation of expenditure incurred on computer equipment, office furniture, additional motor cars and certain other costs.

3 Claims

	1988 £000	1987 £000
Gross death claims payable	5,327	3,864
Reassurance recoveries	805	238
Net death claims payable	<u>4,522</u>	<u>3,626</u>

4 Staff Pension Fund

The most recent valuation was at 31 December 1987 and showed that the market value of the scheme's net assets was £26,160,228 and that the actuarial value of these assets represented 118.8 per cent. of the benefits that had accrued to members, after allowing for expected future increases in earnings. The assumptions which have the most significant effect on the results of this valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment returns would be 7½ per cent. per annum, that salary increases would average 6 per cent. per annum and that present and future pensions would increase at the rate of 4½ per cent. The standard contribution rate, required to meet the future service liabilities of the fund, was 23.6 per cent. of pensionable salaries and this level of funding would have produced a surplus of £4,140,446. Accordingly, the contribution rate for the current year has been set at 21 per cent. (1987—19 per cent.) of earnings in order to spread the bulk of the experience surplus over the weighted average of the remaining service lives of employees. This calculation produced a charge to the revenue account of £1,364,376 (1987—£1,174,270).

At the end of the year, contributions totalling £137,464 (1987—£100,233) were due to the fund.

5 Directors

Directors' remuneration for the year was:

	1988 £	1987 £
Fees	26,538	25,582
Other emoluments	198,160	183,587
Pensions paid to former directors or their widows	15,366	12,173
	<u>240,064</u>	<u>221,342</u>
Chairman	15,000	15,000
Highest paid director	86,619	81,653

Other directors by scale:

	Number of Directors 1988	1987
Up to £5,000	—	1
Exceeding £5,000 up to £10,000	4	3
Exceeding £10,000 up to £15,000	—	1
Exceeding £15,000 up to £20,000	1	—

6 Employees' Remuneration

The number of employees of the Company in receipt of emoluments in excess of £30,000 was as follows:

	1988	1987
Exceeding £30,000 up to £35,000	13	5
Exceeding £35,000 up to £40,000	7	8
Exceeding £40,000 up to £45,000	3	3
Exceeding £45,000 up to £50,000	3	—
Exceeding £50,000 up to £55,000	1	2
Exceeding £55,000 up to £60,000	1	—

7 Auditors' Remuneration

The remuneration of the auditors for the year amounted to £33,000 (1987—£30,000).

NOTES TO THE ACCOUNTS

8 Taxation

The charge for taxation includes irrecoverable tax credits in respect of investment income at the basic rate and corporation tax at 35 per cent. for the year. The charge for taxation in the long term revenue account and profit and loss account is made up as follows:

	Long term revenue account		Profit and Loss account	
	1988 £000	1987 £000	1988 £000	1987 £000
Current year:				
Tax credits	(18)	17	72	22
Corporation tax	—	13	811	868
	(18)	30	883	890
Adjustments to prior years	(1,095)	—	179	—
	(1,113)	30	1,062	890

9 Transfer to Shareholders' Fund

This transfer represents the balance of the Capital Redemption Fund. There is no outstanding actuarial liability in respect of this Fund.

10 Investments

- (i) If the assets had been realised at the values referred to in accounting policy B it is estimated that there would be no additional liability to corporation tax.
- (ii) Uncalled capital on investments held by the Company at the year end amounted to £2,124,664 (1987—£2,075,118) in the Long Term Fund and £nil (1987—£40,000) in the Shareholders' Fund.
- (iii) The cost of dealing in investments amounted to £297,147 (1987—£258,635).

11 Loans to Directors and Officers

(i) Directors

Details of such loans are shown below. Mortgage advances are loans made under the staff house purchase scheme and are secured on the main residence of the borrower and life assurance policies. All due interest has been paid.

	Loan at 1.1.88	Maximum Loan during 1988	Loan at 31.12.88	Average rate of interest
	£	£	£	
Mr. B. E. Radley Mortgage Advance	32,500	32,500	32,500	6.7%
Mr. R. A. F. Ostone Mortgage Advance	20,000	27,000	27,000	6.0%

(ii) Officers

Staff loans for the purpose of house purchase existed as follows:

Aggregate amount outstanding £287,347. Number of officers 4.

12 Capital Commitments

Committed but not yet provided for £107,037 (1987—£2,080,000).
Authorised but not yet committed £1,318,375 (1987—£459,000).

13 Current Assets

Shareholders' Fund

	1988	1987
	£000	£000
Sundry debtors	600	485
Balances at bankers	268	249
	<u>868</u>	<u>734</u>

Long Term Fund

	1988	1987
	£000	£000
Sundry debtors	1,199	666
Taxation	5,670	5,467
Outstanding premiums	537	598
Investment income accrued and outstanding	3,013	2,426
Balances at bankers	772	558
Shareholders' Fund	194	30
	<u>11,385</u>	<u>9,745</u>

14 Current Liabilities

Shareholders' Fund

	1988	1987
	£000	£000
Sundry creditors	12	160
Taxation	472	213
Fellow subsidiary	35	42
Long Term Fund	194	30
	<u>713</u>	<u>445</u>

Long Term Fund

	1988	1987
	£000	£000
Outstanding claims and annuities	1,491	1,124
Depositors	42	50
Sundry creditors	2,195	3,518
Due to ultimate holding company	1	122
	<u>3,729</u>	<u>4,814</u>

15 Share Capital

The authorised, issued and fully paid-up share capital of the Company is made up as follows:

	1988	1987
	£	£
1,400,000 ordinary shares of £1 each	1,400,000	1,400,000
25,000,000 ordinary shares of £1 each, non-voting	25,000,000	25,000,000
	<u>26,400,000</u>	<u>26,400,000</u>

NOTES TO THE ACCOUNTS

16 Ultimate Holding Company

The ultimate holding company is Winterthur Swiss Insurance Company, a company incorporated and registered in Switzerland.

17 Statement of Source and Application of Funds

Statement of source and application of funds for the year ended
31 December 1988 (excluding long term insurance):

	1988 £000	1987 £000
Source of funds:		
Movements on reserves:		
Profit before taxation	2,629	2,570
Movement on investment reserve (after adjustment for loss on sale of freehold property)	(492)	1,366
Transfer from Long Term Fund	43	—
	<u>2,180</u>	<u>3,936</u>
Proceeds of sale of freehold property	1,221	—
	<u>3,401</u>	<u>3,936</u>
Application of funds:		
Mortgage advances	1,199	—
Purchase of freehold property	—	1,285
Loan to holding company	—	2,830
Dividends paid	—	1,584
Tax paid	556	548
Decrease in creditors	238	130
Increase in debtors	115	15
	<u>2,108</u>	<u>6,392</u>
Changes in investments and net liquid funds:		
Increase/(Decrease) in investments, deposits and subsidiaries	1,274	(2,637)
Increase in balances at bankers	19	181
	<u>1,293</u>	<u>(2,456)</u>
	<u>3,401</u>	<u>3,936</u>

Approved by the Board on 6 April 1989.

M. Keenan Chairman
James F. Redding Director
J. O'Shea Director

Provident Way, Basingstoke RG21 2SZ.