

ALLCHURCHES TRUST LIMITED
REPORT AND ACCOUNTS
31 DECEMBER 1996

1043742



Report and Accounts 31 December 1996

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Directors

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

The directors present their report and review together with the audited accounts for the year ended 31 December 1996.

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

Principal activities

The principal activities of the trading subsidiaries throughout and at the end of the year remain the transaction of most forms of general and long term insurance in the United Kingdom and overseas and the provision of other financial services. A list of the company's subsidiary and associated undertakings is given on page 29.

Results and review

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

The all-round excellence of the results achieved by the trading subsidiaries, against adverse market conditions, exceeded our own best hopes. The record volumes of business and profits mark another forward step in a successful five year sequence which has seen the group's turnover, profits and financial strength transformed since 1991. General business underwriting profit was augmented by a strong investment performance contributing to pre-tax profits up 38.6% to £24 million, easily the best ever recorded.

Our Financial Services division, under new leadership, made strong progress in 1996. Premium volumes for life and pensions business increased by 9.7% to £17.4 million while new business rose by 21.4%, well up to industry standards. Unit trust sales and mortgage completions also increased during the year.

The group's capital and free reserves have again reached record levels. All our major investment funds out-performed their target benchmarks, sector by sector. The main corporate development during the year was the decision to take a controlling interest in Chatham Holdings Inc., where we were previously a minority shareholder.

Accounting policies

The changes are explained in the accounting policies on page 14. The effects of the changes are explained in note 23 to the accounts.

Distributions

During the course of the year charitable distributions amounting to £2.6 million were paid by the company. During the last five years a total of £11.2 million has been provided by group companies for church and charitable purposes. It is the company's policy not to make political donations.

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 and of the profit or loss for the financial year and which comply with the Companies Act 1985.

Accordingly, the directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made in the preparation of the accounts for the year ended 31 December 1996. The directors also confirm that applicable accounting standards have been followed and that the accounts have been prepared on the going concern basis.

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

Directors' Report

Directors

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

The directors record with very great regret the death of the Very Revd. T. E. Evans MA, the Dean of St Paul's, on 17 August 1996.

Mr W. H. Yates was appointed a director on 9 January 1997. In accordance with the articles of association, Mr Yates will retire at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

In accordance with the articles of association the Rt. Hon. the Viscount Churchill retires by rotation and, being eligible, offers himself for re-election at the forthcoming annual general meeting.

Directors' interests

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

	Interest at 31.12.1996	Interest at 1.1.1996
C. A. McLintock	500	500
The Rt. Hon. the Viscount Churchill	-	-
M. R. Cornwall-Jones	500	500
The Rt. Revd. D. G. Snelgrove	700	700
W. H. Yates	500	500

No director had an interest in any other shares or debentures of the group. No contract of significance subsisted during or at the end of the financial year in which a director was or is materially interested.

Employees

The company itself has no direct employees other than directors.

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

Policy on payment of creditors

It is the company's policy to pay creditors promptly and fully, in accordance with the terms of their contracts.

Auditors

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

By order of the board

R. W. Clayton
Secretary

26 June 1997

Auditors' Report

To the members of Allchurches Trust Limited

We have audited the financial statements on pages 5 to 29 which have been prepared under the historic cost convention, as modified by the revaluation of certain assets, and in accordance with the accounting policies set out on pages 14 to 16.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Equalisation provision

Our evaluation of the presentation of information in the financial statements has had regard to the statutory requirement for insurance companies to maintain an equalisation provision. The nature of the equalisation provision, the amount set aside at 31 December 1996, and the effect of the movement in the provision during the year on the balance on the general business technical account and profit on ordinary activities before taxation, are disclosed in the accounting policies and note 17 to the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the state of the affairs of the company and the group as at 31 December 1996 and of the group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Binder Hamlyn
Chartered Accountants and Registered Auditors

20 Old Bailey
London
EC4M 7BH

26 June 1997

Financial Statements

PARENT COMPANY PROFIT AND LOSS ACCOUNT for the year ended 31 December 1996

	1996 £000	1995 £000
Income		
Gift aid from a subsidiary undertaking	3,000	2,500
Deposit interest	162	127
	3,162	2,627
Expenditure		
Charitable grants	2,560	2,096
Administrative expenses	2	2
	2,562	2,098
Profit on ordinary activities before and after tax	600	529

All the amounts above are in respect of continuing operations

Financial Statements

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1996

	Notes	1996 £000	1995 £000
TECHNICAL ACCOUNT - GENERAL BUSINESS			
Earned premiums, net of reinsurance			
Gross premiums written			
- continuing operations		176,792	175,407
- acquisitions		12,308	-
		<hr/>	<hr/>
	2(a)	189,100	175,407
Outward reinsurance premiums		63,526	65,734
		<hr/>	<hr/>
Net written premiums		125,574	109,673
		<hr/>	<hr/>
Change in the gross provision for unearned premiums		414	1,702
Change in the provision for unearned premiums, reinsurers' share		(195)	(297)
		<hr/>	<hr/>
Change in the net provision for unearned premiums		609	1,999
		<hr/>	<hr/>
Earned premiums, net of reinsurance		124,965	107,674
		<hr/>	<hr/>
Claims paid			
- gross amount		109,140	78,968
- reinsurers' share		26,564	24,306
		<hr/>	<hr/>
		82,576	54,662
		<hr/>	<hr/>
Change in provision for claims		(2,389)	22,498
- gross amount			
- reinsurers' share		(11,283)	(652)
		<hr/>	<hr/>
		8,894	23,150
		<hr/>	<hr/>
Claims incurred, net of reinsurance		91,470	77,812
Net operating expenses	4	32,037	28,794
Change in the equalisation provision	17	(704)	-
		<hr/>	<hr/>
Total technical charges		122,803	106,606
		<hr/>	<hr/>
Balance on the technical account for general business		2,162	1,068
		<hr/>	<hr/>

Financial Statements

CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 31 December 1996

	Notes	1996 £000	1995 <i>Restated</i> £000
TECHNICAL ACCOUNT - LONG TERM BUSINESS.			
Earned premiums, net of reinsurance			
Gross premiums written	2(b)	17,470	15,929
Outward reinsurance premiums		242	259
		17,228	15,670
Investment income	3	20,667	20,615
Unrealised gains on investments		14,991	23,078
Total technical income		52,886	59,363
Claims paid			
- gross amount		32,967	32,080
- reinsurers' share		134	2,264
		32,833	29,816
Change in provision for claims			
- gross amount		(55)	443
- reinsurers' share		19	6
		(74)	437
Claims incurred, net of reinsurance		32,759	30,253
Change in other technical provisions			
Long term business provisions			
- gross amount		(9,079)	(1,913)
- reinsurers' share		26	(1,547)
		(9,105)	(366)
Technical provision for linked business		4,425	3,641
Change in other technical provisions, net of reinsurance		(4,680)	3,275
Bonuses and rebates, net of reinsurance		5,676	6,006
Net operating expenses	4	3,097	2,868
Investment expenses and charges		523	472
Tax attributable to the long term business	8	1,157	770
Transfer to the fund for future appropriations		13,754	15,714
		24,207	25,830
Total technical charges		52,286	59,358
Balance on the technical account for long term business		600	5

All the amounts above are in respect of continuing operations

Financial Statements

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1996

	Notes	1996	1995 <i>Restated</i>
NON-TECHNICAL ACCOUNT		£000	£000
Balance on the general business technical account		2,162	1,068
Balance on the long term business technical account		600	5
Tax credit attributable to shareholders' long term business profits		296	2
		<u>3,058</u>	<u>1,075</u>
Investment income	3	24,185	19,215
Investment expenses and charges	3	(1,636)	(1,229)
Other operations	3	420	315
Other charges including value adjustments	3	(1,998)	(2,041)
Profit on ordinary activities before tax			
- continuing operations		23,103	17,335
- acquisitions		926	-
		<u>24,029</u>	<u>17,335</u>
Tax on profit on ordinary activities	8	5,301	4,176
Profit on ordinary activities after tax		18,728	13,159
Minority interests	15	3,368	2,219
		<u>15,360</u>	<u>10,940</u>
Profit for the financial year			
		15,360	10,940
Charitable grants		2,593	2,106
Retained profit for the financial year		<u>12,767</u>	<u>8,834</u>

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

Financial Statements

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES *for the year ended 31 December 1996*

	1996	1995
		<i>Restated</i>
	£000	£000
Profit for the financial year	15,360	10,940
Discount on acquisition of shares in a subsidiary undertaking	-	2
Unrealised surplus on revaluation of investments	7,318	16,916
Realised investment gains of investment trust subsidiary	3,069	2,259
Currency translation differences	(924)	590
Other movements	282	(103)
Total recognised gains and losses for the financial year	<u>25,105</u>	<u>30,604</u>

The effect of the changes in accounting policy are shown in note 23 to the accounts

Financial Statements

PARENT COMPANY BALANCE SHEET at 31 December 1996

	Notes	1996 £000	1995 <i>Restated</i> £000
Fixed assets			
Investments:			
Shares in group undertakings		116,308	94,396
Current assets			
Prepayments and accrued income		15	-
Cash at bank		3,120	2,534
		<u>3,135</u>	<u>2,534</u>
Creditors			
Amounts falling due within one year : accruals		6	5
Net current assets		<u>3,129</u>	<u>2,529</u>
Net assets		<u>119,437</u>	<u>96,925</u>
Reserves	13		
Revaluation and other reserves		116,258	94,346
Retained profits		3,179	2,579
		<u>119,437</u>	<u>96,925</u>

The financial statements on pages 5 to 29 were approved by the board of directors on 26 June 1997 and signed on their behalf by

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

M.R. Cornwall-Jones

Financial Statements

CONSOLIDATED BALANCE SHEET

at 31 December 1996

	Notes	1996	1995
		£000	<i>Restated</i> £000
ASSETS			
Investments	9		
Land and buildings		9,804	13,633
Investments in participating interests		59	5,468
Other financial investments		593,544	510,028
Value of long term insurance business		6,000	6,000
		<u>609,407</u>	<u>535,129</u>
Assets held to cover linked liabilities	10	17,563	13,138
Reinsurers' share of technical provisions			
Provision for unearned premiums		19,931	20,203
Long term business provision		1,643	1,621
Claims outstanding		43,178	52,945
		<u>64,752</u>	<u>74,769</u>
Debtors			
Debtors arising out of direct insurance operations	11	34,224	36,784
Debtors arising out of reinsurance operations		26,888	15,640
Other debtors		3,157	3,478
		<u>64,269</u>	<u>55,902</u>
Other assets			
Tangible assets	12	2,745	2,972
Cash at bank and in hand		53,693	55,557
		<u>56,438</u>	<u>58,529</u>
Prepayments and accrued income			
Accrued interest and rent		5,835	4,370
Deferred acquisition costs		11,787	10,852
Other prepayments and accrued income		2,496	1,407
		<u>20,118</u>	<u>16,629</u>
Total assets		<u><u>832,547</u></u>	<u><u>754,096</u></u>

Financial Statements

CONSOLIDATED BALANCE SHEET

at 31 December 1996

	Notes	1996	1995
		£000	<i>Restated</i> £000
LIABILITIES			
Reserves	13		
Revaluation and other reserves		63,784	53,159
Long term business reserve		6,000	6,000
General reserve		10,000	10,000
Profit and loss account		39,653	27,766
		<u>119,437</u>	<u>96,925</u>
Minority interests	15	79,658	68,707
Fund for future appropriations		67,330	53,576
Technical provisions			
Provision for unearned premiums		70,167	66,529
Long term business provision	16	216,732	220,139
Claims outstanding		190,952	166,634
Equalisation provision		5,296	6,000
		<u>483,147</u>	<u>459,302</u>
Technical provisions for linked liabilities		17,563	13,138
Provisions for other risks and charges	18	4	32
Deposits received from reinsurers		1,102	625
Creditors			
Creditors arising out of direct insurance operations		5,538	6,300
Creditors arising out of reinsurance operations		13,755	11,742
Other creditors including taxation and social security	19	42,770	42,155
		<u>62,063</u>	<u>60,197</u>
Accruals and deferred income		2,243	1,594
Total liabilities		<u>832,547</u>	<u>754,096</u>

Financial Statements

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 1996

(excluding long term business)

	Notes	1996 £000	1995 £000
Net cash inflow from operating activities	20(a)	36,773	34,794
Servicing of finance			
Charitable grants paid		(2,527)	(2,106)
Dividends paid to minority shareholders		(1,600)	(2,042)
Lease purchase interest paid		(106)	(100)
Loan interest paid		(2,762)	(3,035)
Net cash outflow from servicing of finance		(6,995)	(7,283)
Taxation		(3,999)	(3,293)
Investing activities			
Purchases of liquid investments		(93,469)	(88,534)
Sales of liquid investments		76,015	47,460
Purchases of tangible assets		(507)	(754)
Sales of tangible assets		2	29
Purchase of subsidiary undertaking		(3,112)	-
Reduction in minority interests		(3,199)	(4)
Net cash outflow from investing activities		(24,270)	(41,803)
Net cash inflow/(outflow) before financing		1,509	(17,585)
Financing activities			
Issue of 8.625% Irredeemable Non-Cumulative Preference shares		-	15,000
Increase in borrowings		-	300
Capital element of lease purchase rental payments		(277)	(260)
Net cash (outflow)/inflow from financing	20(c)	(277)	15,040
Increase/(decrease) in cash and cash equivalents	20(b)	1,232	(2,545)

Accounting Policies

Basis of preparation

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

Changes in accounting policies

Investments

Fixed interest securities are included in the balance sheet at amortised cost. They were previously included at mid-market value. The charge or credit for amortisation is included in investment income. Prior year figures have been restated.

Equalisation provisions

Provision is made in the group accounts for the equalisation provision required by the Insurance Companies (Reserves) Act 1995.

Basis of consolidation

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

Foreign exchange

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

General business technical account

Premiums

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

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

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

Unearned premiums

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

Accounting Policies

Unexpired risks

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

Claims

Full provision for outstanding claims is made on an individual basis for the estimated cost of claims notified but not settled by the balance sheet date after taking into account handling costs, anticipated inflation, salvage and other recoveries and settlement trends. A provision for claims incurred but not reported is established on statistical methods. Any differences between provisions and subsequent settlements are dealt with in the technical accounts of later years. A claims equalisation reserve has been set up to offset any technical deficit or above average claims ratio arising in any class of business.

Deferred acquisition costs

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

Long term business technical account

Premiums

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

Claims

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

Deferred acquisition costs

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

Bonuses

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

Long term business provision

The long term business provision is determined by the 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 revenue margins. This has been determined by means of a Zillmer adjustment applied to the net premium valuation basis. This adjusted basis is referred to as the modified solvency basis. The consequent long term business provision is grossed up for the impact of reinsurance.

Allocation of surpluses and fund for future appropriations.

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

Accounting Policies

Investments

Listed equity investments are included in the balance sheet at mid-market value, and unlisted investments at directors' valuation. Mortgages, loans and other fixed interest securities are valued at amortised cost.

Investment properties were valued at 31 December 1996 on an open market existing use basis by independent chartered surveyors. Owner occupied properties were valued at 31 December 1994 at market value based on vacant possession. In accordance with SSAP 19, which requires a departure from the Companies Act 1985, no depreciation is provided in respect of freehold investment properties not occupied by the group. The directors consider that depreciation of these investment properties would not give a true and fair view.

Investment income and expenses

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

Unrealised investment gains and losses

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

Deferred taxation

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

Tangible assets

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

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

Value of long term insurance business

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

Pensions

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

Leasing commitments

Assets obtained under lease purchase contracts are capitalised as tangible fixed assets and are depreciated over the period of the lease. Obligations under such agreements are included in creditors net of finance charges allocated to future periods.

The interest element of the lease payments is charged to the profit and loss account over the period of the lease.

Goodwill

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

Notes to the Accounts

1 Exchange rates

	1996	1995
The principal rates of exchange used for translation are:		
United States of America	US\$1.71	US\$1.55
Canada	C\$2.35	C\$2.12
Republic of Ireland	IR£1.01	IR£0.97

2 Segmental analysis

(a) General business premiums

	1996		1995	
Class of business	Gross £000	Net £000	Gross £000	Net £000
Direct:				
Accident	3,956	3,853	2,980	2,840
Motor	19,091	17,752	15,844	14,784
Property	110,588	62,867	112,443	62,655
Liability	17,497	16,165	16,154	15,046
	<u>151,132</u>	<u>100,637</u>	<u>147,421</u>	<u>95,325</u>
Reinsurance accepted and London market	37,968	24,937	27,986	14,348
Total	<u>189,100</u>	<u>125,574</u>	<u>175,407</u>	<u>109,673</u>

Geographical analysis - on the basis of location of office

United Kingdom	156,569	103,397	154,633	98,548
North America	29,090	19,765	17,358	8,781
Other overseas	3,441	2,412	3,416	2,344
Total	<u>189,100</u>	<u>125,574</u>	<u>175,407</u>	<u>109,673</u>

(b) Long term business premiums

Geographical analysis - on the basis of location of office

United Kingdom	<u>17,470</u>	<u>17,228</u>	<u>15,929</u>	<u>15,670</u>
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Notes to the Accounts

2 Segmental analysis (continued)

The analysis of long term business premiums written before reinsurance is :	1996	1995
	£000	£000
Life insurance business		
- Single premiums	515	5
- Regular premiums	7,032	7,098
Annuity business		
- Single premiums	4,201	3,523
- Regular premiums	-	1
Pension business		
Non-linked contracts		
- Single premiums	277	360
- Regular premiums	2,232	2,009
Linked contracts		
- Single premiums	450	386
- Regular premiums	2,598	2,412
PHI business	162	133
Endowment certain business	3	2
	<u>17,470</u>	<u>15,929</u>

Gross new annualised regular premiums

Life insurance	609	506
Pensions	569	433
	<u>1,178</u>	<u>939</u>

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		<i>Restated</i>
United Kingdom	19,665	14,594
North America	3,893	2,109
Other overseas	471	632
	<u>24,029</u>	<u>17,335</u>

(d) Net assets

United Kingdom	108,933	86,094
North America	9,717	9,751
Other overseas	787	1,080
	<u>119,437</u>	<u>96,925</u>

Notes to the Accounts

2 Segmental analysis (continued)

(e) Balance sheet analysis 1996

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

1995 Restated

	General business	Long term business			Elim- inations	Total
		Linked contracts	Non- linked contracts	Fund for future appro- priations		
	£000	£000	£000	£000	£000	£000
Investments	283,041	-	205,555	53,576	(7,043)	535,129
Assets held to cover linked liabilities	-	13,138	-	-	-	13,138
Reinsurers' share of technical provisions	73,137	-	1,632	-	-	74,769
Other assets	115,447	-	15,613	-	-	131,060
	<u>471,625</u>	<u>13,138</u>	<u>222,800</u>	<u>53,576</u>	<u>(7,043)</u>	<u>754,096</u>
Reserves	96,925	-	-	-	-	96,925
Fund for future appropriations	-	-	-	53,576	-	53,576
Technical provisions	237,655	13,138	221,647	-	-	472,440
Other liabilities	137,045	-	1,153	-	(7,043)	131,155
	<u>471,625</u>	<u>13,138</u>	<u>222,800</u>	<u>53,576</u>	<u>(7,043)</u>	<u>754,096</u>

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

Notes to the Accounts

3 Investment activity account

	1996		1995 <i>Restated</i>	
	General business £000	Long term business £000	General business £000	Long term business £000
Investment income:				
- land and buildings	440	789	691	996
- listed investments	14,812	10,241	13,045	10,399
- other investments	5,641	6,206	4,249	6,424
- group undertakings	420	227	315	209
Gains on the realisation of investments	3,292	3,204	1,230	2,587
	24,605	20,667	19,530	20,615
Investment management expenses, including interest	(1,636)	(523)	(1,229)	(472)
	22,969	20,144	18,301	20,143
Debenture interest	(780)	-	(780)	-
Corporate business loan interest	(1,218)	-	(1,261)	-
Unrealised gains on investments	10,625	14,991	19,231	23,078
Total investment return	31,596	35,135	35,491	43,221

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

4 Expenses

	1996		1995	
	General business £000	Long term business £000	General business £000	Long term business £000
Net operating expenses :				
- acquisition costs	43,597	1,111	36,080	1,195
- change in deferred acquisition costs	(471)	41	(303)	139
- administrative expenses	9,001	1,972	11,878	1,592
- reinsurance commissions and profit participation	(20,090)	(27)	(18,861)	(58)
	32,037	3,097	28,794	2,868

The group has incurred the following amounts in respect of:

Depreciation :				
- property	78	5	258	19
- owned assets	661	93	465	80
- leased assets	71	67	50	-
Auditors' remuneration :				
- UK	133	29	106	25
- overseas	99	-	17	-
- fees for non-audit services	36	-	31	-

Notes to the Accounts

5 Employee information	1996		1995	
	General business	Long term business	General business	Long term business
The average weekly number of employees, including executive directors, during the year by geographical location was :	No.	No.	No.	No.
United Kingdom	693	53	649	48
North America	59	-	43	-
Republic of Ireland	13	-	13	-
	<u>765</u>	<u>53</u>	<u>705</u>	<u>48</u>
	£000	£000	£000	£000
Wages and salaries	13,042	1,138	11,742	973
Social security costs	961	98	887	88
Other pension costs	2,199	210	2,090	189
	<u>16,202</u>	<u>1,446</u>	<u>14,719</u>	<u>1,250</u>

6 Directors' emoluments	1996 £	1995 £
No director received emoluments from Allchurches Trust Ltd during the year.		
The aggregate emoluments of the directors in respect of services as non-executive directors of subsidiary undertakings were:	43,000	41,000
The chairman received no emoluments.		
Highest paid director's fees	34,500	29,500
Other directors, excluding pension contributions	No.	No.
Up to £5,000	2	2
£5,001 to £10,000	1	1

7 Pensions

The group's main scheme is a defined benefit scheme for UK employees. The assets of the scheme are held separately from those of the group by the Ecclesiastical Insurance Office plc Staff Retirement Benefit Fund. Pension costs for this scheme are determined, on the basis of triennial valuations, by a qualified actuary using the aggregate method. The most recent valuation was at 31 August 1995.

The assumptions which have the greatest effect on the valuation results are those related to the rate of return on investment and the rate of increase in salaries. It is assumed that there will be a margin of 2% between investment return and salary growth. Other than in respect of statutory pension increase no allowance was made for pension increases as these are separately funded by the group.

The most recent actuarial valuation showed that the market value of the scheme's assets was £40,407,000 and that the actuarial value of the assets was sufficient to cover 103.9% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The contribution of the group to the fund will remain at 20% of pensionable salary plus additional amounts in accordance with recommendations by the Scheme Actuary. The scheme is registered with the Registry of Pension Schemes. Canadian pension liabilities are dealt with by payment to a Canadian Trustee Fund. Republic of Ireland pension liabilities are dealt with by payment to an Irish life office. The total funding cost for year was £2,398,000 (£2,289,000). Of this £2,308,000 (£2,227,000) related to the UK scheme.

Notes to the Accounts

8 Taxation	Long term business technical account		Non-technical account	
	1996 £000	1995 £000	1996 £000	1995 £000
UK Corporation tax	417	98	3,659	3,348
Tax on franked investment income	717	671	1,183	1,028
Overseas tax	23	26	30	28
Prior year adjustment	-	(25)	131	(316)
Share of associated undertaking's tax	-	-	2	86
Tax attributable to shareholders' long term business profits	-	-	296	2
	<u>1,157</u>	<u>770</u>	<u>5,301</u>	<u>4,176</u>

9 Investments at current value	1996			1995 Restated		
	General business £000	Long term business £000	Total £000	General business £000	Long term business £000	Total £000
Freehold land and buildings						
- occupied by the group	718	-	718	3,104	1,191	4,295
- other	1,508	7,578	9,086	1,494	7,844	9,338
	<u>2,226</u>	<u>7,578</u>	<u>9,804</u>	<u>4,598</u>	<u>9,035</u>	<u>13,633</u>
Other financial investments						
Shares and other variable yield securities and units in unit trusts:						
- UK stock exchange listed	184,520	135,396	319,916	151,798	120,166	271,964
- unlisted	243	1	244	44	-	44
	<u>184,763</u>	<u>135,397</u>	<u>320,160</u>	<u>151,842</u>	<u>120,166</u>	<u>272,008</u>
Debt and other fixed income securities:						
- UK stock exchange listed	140,004	53,803	193,807	101,800	52,916	154,716
- unlisted	274	311	585	450	450	900
Loans secured by mortgages	13,155	65,230	78,385	12,763	68,871	81,634
Other loans	82	525	607	119	651	770
	<u>153,515</u>	<u>119,869</u>	<u>273,384</u>	<u>115,132</u>	<u>122,888</u>	<u>238,020</u>
Total	<u>338,278</u>	<u>255,266</u>	<u>593,544</u>	<u>266,974</u>	<u>243,054</u>	<u>510,028</u>

The value of the group's investments at historical cost is £453,774,000 (£399,971,000).

Notes to the Accounts

10 Assets held to cover linked liabilities

1996

1995

	Current value £000	Historical cost £000	Current value £000	Historical cost £000
Assets held to cover linked liabilities	17,563	13,438	13,138	10,862

11 Debtors

Group debtors arising out of direct insurance operations
1996

1995

	General business £000	Long term business £000	Total £000	General business £000	Long term business £000	Total £000
Policyholders	10,590	2,008	12,598	10,899	1,805	12,704
Intermediaries	21,626	-	21,626	24,080	-	24,080
	32,216	2,008	34,224	34,979	1,805	36,784

12 Tangible assets

£000

Cost:

At 1 January 1996

10,181

Additions

1,047

Disposals

(404)

At 31 December 1996

10,824

Depreciation :

At 1 January 1996

7,209

Additions

1,106

Disposals

(236)

At 31 December 1996

8,079

Net book value 31 December 1996

General business

2,212

Long term business

533

2,745

Net book value 1 January 1996

General business

2,439

Long term business

533

2,972

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

Notes to the Accounts

13 Reserves	1996		1995 <i>Restated</i>	
	Group £000	Parent £000	Group £000	Parent £000
(a) Revaluation and other reserves				
As previously reported	56,440	97,571	36,317	68,967
Prior year adjustment	(3,281)	(3,225)	(2,388)	(2,346)
	<u>53,159</u>	<u>94,346</u>	<u>33,929</u>	<u>66,621</u>
Balance 1 January 1996 as restated	53,159	94,346	33,929	66,621
Currency translation differences	(44)	-	156	-
Other movements	282	-	(101)	-
Surplus arising from revaluation of securities	7,318	21,912	16,916	27,725
Realised investment gains of investment trust subsidiary	3,069	-	2,259	-
	<u>63,784</u>	<u>116,258</u>	<u>53,159</u>	<u>94,346</u>
Balance 31 December 1996	<u>63,784</u>	<u>116,258</u>	<u>53,159</u>	<u>94,346</u>
(b) Long term insurance business reserve				
Balance 31 December 1996	<u>6,000</u>	<u>-</u>	<u>6,000</u>	<u>-</u>
(c) General reserve				
Balance 31 December 1996	<u>10,000</u>	<u>-</u>	<u>10,000</u>	<u>-</u>
(d) Retained profits				
As previously reported	27,710	2,579	18,700	2,050
Prior year adjustment	56	-	42	-
	<u>27,766</u>	<u>2,579</u>	<u>18,742</u>	<u>2,050</u>
Balance 1 January 1996 as restated	27,766	2,579	18,742	2,050
Currency translation differences	(880)	-	434	-
Issue costs	-	-	(244)	-
Profit for the financial year	12,767	600	8,834	529
	<u>39,653</u>	<u>3,179</u>	<u>27,766</u>	<u>2,579</u>
Balance 31 December 1996	<u>39,653</u>	<u>3,179</u>	<u>27,766</u>	<u>2,579</u>
Total capital and reserves	<u>119,437</u>	<u>119,437</u>	<u>96,925</u>	<u>96,925</u>

Notes to the Accounts

14 Reconciliation of movements in group shareholders' funds	1996	1995
	£000	Restated £000
Profit for the financial year	15,360	10,940
Other recognised gains and losses	9,745	19,664
	25,105	30,604
Charitable grants	(2,593)	(2,106)
Issue costs	-	(244)
	22,512	28,254
Net movement in shareholders' funds	100,150	71,017
Opening shareholders' funds	(3,225)	(2,346)
Restatement		
	119,437	96,925

15 Minority interests

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

	Profit and Loss Account		Balance Sheet	
	1996	1995	1996	1995
	£000	£000	£000	£000
Equity interests				
St Andrew Trust plc				
Ordinary shares of £1 each	1,501	1,539	56,638	50,164
Chatham Holdings Inc.				
Common stock	257	-	4,536	-
	1,758	1,539	61,174	50,164
Non-equity interests				
Ecclesiastical Insurance Office plc				
2.8% First Cumulative Preference shares of £1 each	6	6	212	211
10% Redeemable Second Cumulative Preference shares of £1 each	300	300	3,000	3,000
8.625% Irredeemable Non Cumulative Preference shares of £1 each	1,294	362	15,000	15,000
St Andrew Trust plc				
5.25% Cumulative Preference stock (now 3.675% plus tax credit)	10	12	272	332
	1,610	680	18,484	18,543
	3,368	2,219	79,658	68,707

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
1997	7 1/2 per cent
1998 to 2002	5 per cent
2003 to 2007	2 1/2 per cent
2008 to 2012	Nil

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

Notes to the Accounts

16 Long term business provision

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

(a) Rates of interest		%
Assurances:		
Life		2.5 - 4.0
Pensions		3.5
Annuities:		
With profit	- deferred	2.5 - 5.5
Without profit	- deferred	5.75 - 6.5
	- vested	6.0 - 7.0
(b) Mortality tables		
Assurances		A67 - 70
Deferred annuities	- pensions	PA (90)
	- school fees	no mortality
Vested annuities	- pensions	PA (90)
	- other	a (90)

The mortality tables used have various deductions from age depending upon the type of business being valued. Further allowances were made for additional mortality resulting from AIDS where appropriate. The amount charged for bonuses and rebates in the long term business technical account relates entirely to reversionary and terminal bonuses paid and payable for the year, £5,676,000 (£6,006,000) of which has been included in the long term business provision.

17 Equalisation provision

As described in the accounting policies on page 14, the group has established a statutory equalisation provision. Of the amount included in the balance sheet, £2,296,000 relates to the statutory provision. The non-statutory claims equalisation reserve brought forward has been reduced from £6m to £3m, resulting in a net release to the general business technical account of £704,000.

18 Provisions for other risks and charges

The provision shown in the accounts relates to deferred taxation of a subsidiary company, St Andrew Trust plc, in respect of short term timing differences. If the investments of the group were realised at the amounts at which they are included in the accounts a liability to corporation tax of approximately £18.9m (£18.7m) would arise. No provision has been made in respect of these unrealised investment gains.

Notes to the Accounts

19 Other creditors including taxation and social security

	1996 £000	1995 £000
Amounts falling due within one year:		
Corporate business loans	5,000	-
Other creditors	4,205	4,433
Taxation	4,762	3,895
Bank overdraft	4	30
	<u>13,971</u>	<u>8,358</u>
Amounts falling due after more than one year:		
Debenture stock	6,000	6,000
Corporate business loans	22,000	27,000
Lease purchase contracts	799	797
	<u>28,799</u>	<u>33,797</u>
Total	<u>42,770</u>	<u>42,155</u>
Included in other creditors are obligations under lease purchase contracts due:		
In 1 year or less	400	364
Between 2 and 5 years	794	797
	5	-
	<u>1,199</u>	<u>1,161</u>

The £6,000,000 13% Debenture stock 2018 is secured on the assets of Ecclesiastical Insurance Group plc. Except insofar as previously repaid, or purchased by the company or any of its subsidiaries and cancelled, the stock will be repaid at par on 31 August 2018. The corporate business loans are secured on the assets of Allchurches Mortgage Company Limited and Ecclesiastical Insurance Group plc's holdings of Ordinary shares and 9.5% Redeemable Third Non-Cumulative Preference shares in Ecclesiastical Insurance Office plc and are repayable:

	1996 £000	1995 £000
Within 1 year	5,000	5,000
Between 2 and 5 years	12,000	12,000
Over 5 years	10,000	10,000
	<u>27,000</u>	<u>27,000</u>

20 Notes to the cash flow statement

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

	1996 £000	1995 <i>Restated</i> £000
Profit on ordinary activities before tax	24,029	17,335
Depreciation charges	810	1,090
Amortisation of fixed interest securities	85	(51)
Realised investment gains	(3,292)	(1,230)
Loss/(profit) on sale of tangible fixed assets	7	(5)
Increase in insurance funds and net outstanding claims	13,794	25,384
Tax credit on franked investment income	(1,183)	(1,020)
Movements in debtors less creditors	1,022	(9,172)
Profit retained in associated undertakings	(6)	(536)
Transfer from long term business	(600)	(5)
Lease purchase interest payable	106	100
Loan interest payable	2,001	2,904
	<u>36,773</u>	<u>34,794</u>

Notes to the Accounts

20 Notes to the cash flow statement (continued)	1996	1995
	£000	£000
(b) Analysis of changes in cash and cash equivalents during the year.		
Balance 1 January 1996	48,302	50,060
Net cash inflow/(outflow)	1,232	(2,545)
Movements on exchange	(927)	787
Balance 31 December 1996	<u>48,607</u>	<u>48,302</u>

(c) Analysis of changes in financing during the year

Loans and lease contracts		
Balance 1 January 1996	48,900	33,542
Cash (outflow)/inflow from financing	(277)	15,040
Inception of lease contracts	345	318
Balance 31 December 1996	<u>48,968</u>	<u>48,900</u>

21 Operating Leases	1996		1995	
Annual commitments and payments under non-cancellable operating leases were as follows:	Premises £000	Equipment £000	Premises £000	Equipment £000
Commitments				
Expiring:				
Within 1 year	89	-	16	-
Between 2 and 5 years	174	447	152	447
Over 5 years	847	-	880	-
	<u>1,110</u>	<u>447</u>	<u>1,048</u>	<u>447</u>
Payments	<u>1,468</u>	<u>335</u>	<u>1,023</u>	<u>10</u>

22 Capital commitments

At 31 December 1996 outstanding contracts for capital expenditure amounted to £226,000 (£Nil).

23 The effects of changes in accounting policies

The effects of the change to valuing fixed interest securities at amortised cost is to reduce the reported profits for the current year by £85,000 (£14,000). The cumulative effect is an increase in retained profits at 31 December 1995 of £56,000.

24 Related party transactions

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

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

Subsidiary and Associated Undertakings

25	Subsidiary undertakings	Share capital	Holdings of shares by:	
			Parent	Subsidiaries
	Incorporated and operating in Great Britain, engaged in investment, insurance and financial services or other insurance related business:			
	Ecclesiastical Insurance Group plc	Ordinary shares	100%	
	Allchurches Mortgage Company Limited	Ordinary shares 6% Non-Cumulative Redeemable Preference shares	100%	100%
	Ecclesiastical Group Asset Management Limited	Ordinary shares		100%
	Allchurches Investment Management Services Limited	Ordinary shares		100%
	The Churches Purchasing Scheme Limited	Ordinary shares		100%
	Ecclesiastical Underwriting Management Limited	Ordinary shares		100%
	Ecclesiastical Insurance Office plc	Ordinary shares 2.8% First Cumulative Preference shares 9.5% Redeemable Third Non- Cumulative Preference shares 8.625% Irredeemable Non- Cumulative Preference shares		100% 15.2% 100% 9.1%
	Allchurches Life Assurance Limited	Ordinary shares		100%
	Blaisdon Properties Limited	Deferred shares Ordinary shares		100% 100%
	Eccint Limited	Ordinary shares		100%
	Incorporated and operating in Great Britain, engaged in investment trust business:			
	St Andrew Trust plc	Ordinary shares 5.25% Cumulative Preference stock (now 3.675% plus tax credit)		59.5% 63.3%
	Incorporated and operating in the United States of America, engaged in insurance business:			
	Chatham Holdings Inc.	Common stock		72.3%
	Chatham Reinsurance Corporation	Common stock		100%
	All the subsidiaries listed are included within the consolidated financial statements.			
	Of the 59.5% holding of Ordinary shares in St Andrew Trust plc, 5.8% is held by the mutual life fund of Ecclesiastical Insurance Office plc.			
	There are also three other wholly owned subsidiary undertakings whose assets and contributions to group income are not significant.			
	Associated undertaking			
	Incorporated and operating in Great Britain, engaged in insurance business:			
	Wright Underwriting Group Limited	Ordinary shares		25%