Company No:3194991

PERSONAL GROUP HOLDINGS PLC

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 1997

PERSONAL GROUP HOLDINGS PLC

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1997

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PERSONAL GROUP HOLDINGS PLC

QUALITY POLICY

Personal Group exists to develop business opportunities in the personal insurance market that will provide a high level of service and security for all customers.

This will be achieved by:-

i) Providing a range of insurance products that are complementary to its quality policy and prove attractive to its customers.

ii) Maintaining an adequate return on the investment made by its shareholders.

iii) Co-operation with companies to offer low cost simple and generous benefits to their employees.

iv) Providing customer care that ensures excellent service to customers.

v) Employing excellent people and helping them to realise their full potential.

vi) Promoting market growth.

vii) Operating a quality system which is mandatory in achieving operating aims.

PERSONAL GROUP HOLDINGS PLC

CHAIRMAN'S STATEMENT

1997 was the first year of operation of our group. Our profit before tax amounted to £3,100,000 resulting in net after-tax earnings per share of £1.38. Considering the costs involved in our restructuring were all written off during the year, I consider this an excellent start.

After provision for taxation and the payment of dividends, there is a surplus of £951,000 for the year. The year-end solvency ratio of Personal Assurance remains above the 70% level and maintains high liquidity with over 75% of total assets held as cash deposits.

The group donated £80,000 to Personal Assurance Charitable Trust in 1997 for distribution to approved charitable objects, bringing total donations to £361,000 in the last five years.

I am pleased to report that our new group is trading satisfactorily in our four prime areas: accident & health insurance; employee benefit sales; general insurance services and insurance & reinsurance broking.

As from early January 1998 we have begun to offer a greatly increased range of low-cost benefits to policyholders and their employers. These have included voluntary group life assurance, discounted general insurance, discount buying, and discount travel and emergency help lines.

Plans for this year include continuous improvement of our 'benefit book' and the addition of further voluntary and employer-paid benefit options. It is pleasing to see this approach to the provision and communication of benefits meeting with such favourable responses from both large and medium sized organisations.

Your board is pleased to welcome Robert Pease who was appointed to the group board on 27 January 1998. Robert joined the board of Personal Assurance Plc in May 1997 and was appointed managing director of Personal Insurance & Reinsurance Brokers Limited in the same month.

As we continue our unbroken record of growth into our fourteenth year, I once again express the gratitude of your board of directors to the administration and sales teams.

J Swarbrick
J Swarbrick
Chairman

31 March 1998

PERSONAL GROUP HOLDINGS PLC

REPORT OF THE DIRECTORS

The directors present their report together with financial statements for the year ended 31 December 1997.

Principal activities

Personal Group Holdings plc acts as the holding company for the group. The company was incorporated as Silbury 147 Limited and on 3 January 1997 changed its name to Personal Group Holdings Limited. It was re-registered as a public company by the name of Personal Group Holdings plc on 21 July 1997.

To allow further growth and development of Personal Assurance Plc the directors of that company wished to diversify into other areas of activity, in particular employee benefits and other insurance agencies. To facilitate such growth a new holding company, Personal Group Holdings Plc, was created and existing shareholders in Personal Assurance Plc exchanged their shares for an equal number of shares in Personal Group Holdings Plc.

The group is principally engaged in transacting insurance and employee benefits related business in the U.K.

Results and dividends

A review of the year's results is given in the chairman's statement on page 2.

The profit for the year, before taxation of £989,000, amounted to £3,100,000. During the year ordinary dividends of £1,160,000 were paid, leaving £951,000 retained and added to reserves.

Directors

The directors in office at the end of the year are set out below. They were appointed to the Board on the 17 March 1997. Mr S E Kimbell was the first director of the company and resigned on 17 March 1997

The interests of the directors in the shares of group companies at their date of appointment and at 31 December 1997 were as follows:

	Ordinary shares of £1 each	
	In Personal Group Holdings Plc 31 December 1997	**In Personal Assurance Plc At date of appointment**
J Swarbrick (Chairman)	521	307
C W T Johnston	763,729	770,580
J Ormond	96,871	95,113
S M Donald (Non-executive)	1,158	1,136
K H Klaeser (Non-executive)	1,423	1,300
H Künzler (Non-executive)*	-	-

*alternate to K H Klaeser

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 the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

i select suitable accounting policies and then apply them consistently;

ii make judgements and estimates that are reasonable and prudent;

iii state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

iv prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Payment of creditors

It is the company's policy to pay all suppliers within the terms agreed at the time the order is made, subject to the satisfactory completion of the order by the supplier.

Charitable donations

Charitable donations totalled £80,000 in the year.

Auditors

Grant Thornton were appointed the first auditors to the company and offer themselves for reappointment as auditors in accordance with Section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD

J P Barber

J P Barber
Secretary
31 March 1998

REPORT OF THE AUDITORS TO THE MEMBERS OF

PERSONAL GROUP HOLDINGS PLC

We have audited the financial statements on pages 6 to 29 which have been prepared under the accounting policies set out on pages 6 to 8.

Respective responsibilities of directors and auditors

As described on page 4 the 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, 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 1997 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Further, in our opinion, the additional proforma information contained within pages 9 to 29 has been properly prepared on the basis set out on page 6.

GRANT THORNTON
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
Central Milton Keynes

31 March 1998

PERSONAL GROUP HOLDINGS PLC

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 DECEMBER 1997

Basis of preparation

The financial statements have been prepared under the historical cost convention as modified by the revaluation of investments. They are prepared in accordance with accounting standards, to the extent that they are applicable to insurance companies, the provisions of Section 255 and Schedule 9A of the Companies Act 1985 as amended by the Companies Act 1985 (Insurance Company Accounts) Regulations 1993, and with the statement of recommended practice on accounting for insurance business issued by the Association of British Insurers.

The principal accounting policies of the group are set out below.

Basis of consolidation

The group financial statements consolidate those of the company and of its subsidiary undertakings (see note 19) drawn up to 31 December 1997. The principles of merger accounting have been applied in respect of the results of Personal Assurance plc.

The statutory group financial statements have been prepared on the basis that Personal Assurance plc, which became a subsidiary of the company on 24 June 1997, was a wholly owned subsidiary for the two periods to 31 December 1997. The results of other subsidiary undertakings are included from the date of acquisition. Profits or losses on intra-group transactions are eliminated in full.

Presentation of comparative figures

The presentation of comparative figures is complicated by the fact that the Personal Group Holdings plc was incorporated on 7 May 1996. The principles of merger accounting require that the statutory group financial statements be prepared as if Personal Assurance plc had been a subsidiary from this date of incorporation, which mean that the comparative figures in respect of the profit and loss account are for a period of 34 weeks.

In order to give more meaningful information than would be given by the statutory accounts alone, the directors have presented additional proforma information in the form of a profit and loss account and cash flow statement for the full year ended 31 December 1996 prepared on the same basis as the statutory accounts.

Basis of accounting

The annual basis of accounting is used as the underwriting result can be determined with reasonable certainty at the end of the accounting period.

Premium recognition

Premium income is recognised on a receivable basis. Provision for unearned premiums is calculated to carry forward on a daily basis the proportion of premiums written in the current year relating to cover provided in the following year. Written premiums exclude insurance premium tax.

Reinsurance

Reinsurance premiums are calculated on a payable basis and reinsurance commissions are calculated on a receivable basis.
Net costs of financial reinsurance, as distinct from non financial reinsurance, are charged to the technical account as operating expenses.

Deferred acquisition expenses

A proportion of underwriting expenses regarded as acquisition expenses is deferred to a subsequent accounting period to match the deferral to a subsequent accounting period of the proportion of the written premiums to which the acquisition expenses relate. The deferral of acquisition expenses is calculated by applying the ratio of unearned premiums to written premiums.

Claims recognition

The claims reserve comprises the estimated cost of claims incurred but not settled at the balance sheet date, whether reported or not. Provision is made at the end of an accounting period for claims handling expenses to cover the anticipated costs of negotiating and settling claims which have occurred, whether notified or not, by that date. The provision includes the anticipated costs of the general claims administration relating to such claims.

Investment income, expenses and charges

Investment income is calculated on a receivable basis and includes profit on disposal of investments.

Investment expenses and charges are calculated on a payable basis and include loss on disposal of investments.

Investments

Investments are stated at mid-market value at the balance sheet date. Any surplus/deficit compared to the historical cost at acquisition is taken directly to the investment revaluation reserve. A deficit in market value below historical cost is charged to the non-technical account if considered by the directors a permanent diminution in value.

Goodwill

Purchased goodwill is eliminated from the financial statements by immediate write off on acquisition against reserves.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date.

Depreciation

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets by equal annual instalments over their expected useful lives. The rates and periods generally applicable are:

Motor vehicles	-	4 years
Computer equipment	-	3 - 4 years
Furniture, fixtures and fittings	-	5 - 10 years

Contribution to pension funds

Pension costs in respect of defined contribution schemes charged against profits represent the amount of the contributions payable to the scheme in respect of the accounting period.

Leased assets

Assets held under finance leases and hire purchase are capitalised in the balance sheet and depreciated over their expected useful lives The interest of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

Payments under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Policyholder's Protection Act 1975

Full provision is made for the group's potential liability to pay 1% of general business leviable premium income to the Policyholders' Protection Board. The charge is included within net operating expenses.

PERSONAL GROUP HOLDINGS PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1997

Actual for 34 weeks ended 31 December 1996 £000		Note	Actual for year ended 31 December 1997 £000	Proforma for year ended 31 December 1996 £000
	TECHNICAL ACCOUNT - GENERAL BUSINESS			
5,650	**Gross premiums written**		9,058	8,221
(2)	**Reinsurance premiums**		(2)	(2)
5,648	Net premiums written		9,056	8,219
11	Change in the gross provision for unearned premiums		26	34
5,659	**Earned premiums**		9,082	8,253
	Claims incurred net of reinsurance	1		
	Claims paid			
(1,113)	Gross amount		(2,018)	(1,702)
-	Reinsurers' share		-	-
(1,113)	Net		(2,018)	(1,702)
	Change in the provision for claims			
(221)	Gross amount		(150)	(193)
-	Reinsurer's share		-	-
(221)	Net		(150)	(193)
4,325			6,914	6,358
	Net operating expenses:			
(35)	Financial reinsurance costs	2	(58)	(62)
(2,456)	Other	3	(4,226)	(3,662)
1,834	**Balance on the technical account for general business**		2,630	2,634

The accompanying accounting policies and notes form part of these financial statements.

PERSONAL GROUP HOLDINGS PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 1997

Actual for 34 weeks ended 31 December 1996 £000		**Note**	**Actual for year ended 31 December 1997 £000**	**Proforma for year ended 31 December 1996 £000**
	NON-TECHNICAL ACCOUNT			
1,834	Balance on the general business technical account		2,630	2,634
279	Investment income	7	616	415
(2)	Investment expenses and charges	8	(26)	(6)
-	Other income		21	-
-	Other charges		(61)	-
(56)	Charitable donations		(80)	(75)
2,055	**Profit on ordinary activities before tax**	9	3,100	2,968
(804)	Tax on profit on ordinary activities	10	(989)	(995)
1,251	**Profit for the financial year**		2,111	1,973
(794)	Dividends	11	(1,160)	(1,191)
457	**Profits retained**	15	951	782

The accompanying accounting policies and notes form part of these financial statements.

PERSONAL GROUP HOLDINGS PLC

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 1997

	Note	£000	1997 £000	£000	1996 £000
Assets					
Investments					
Other financial investments	12		608		680
Debtors					
Debtors arising out of direct insurance operations		674		625	
Debtors arising out of direct reinsurance operations		48		53	
Other debtors due within one year		23		18	
			745		696
Other assets					
Tangible assets	13	584		514	
Cash at bank and in hand		7,697		6,468	
			8,281		6,982
Prepayments and accrued income					
Accrued interest and rent		22		24	
Deferred acquisition costs		30		36	
Other prepayments and accrued income		30		30	
			82		90
Total assets			9,716		8,448

The accompanying accounting policies and notes form part of these financial statements.

PERSONAL GROUP HOLDINGS PLC

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 1997 (CONTINUED)

	Note	£000	1997 £000	£000	1996 £000
Liabilities					
Capital and reserves					
Called up share capital	14	1,528		1,528	
Investment revaluation reserve	15	202		172	
Profit and loss account	15	5,199		4,314	
Shareholders' funds	16		6,929		6,014
Technical provisions					
Provision for unearned premiums		265		291	
Claims outstanding	17	876		726	
			1,141		1,017
Creditors					
Arising out of reinsurance operations		31		28	
Current taxation		811		808	
Other creditors including other taxation and social security	18	325		150	
			1,167		986
Accruals and deferred income			479		431
Total liabilities			9,716		8,448

The financial statements were approved by the Board on 31 March 1998

J Swarbrick (Chairman)

C W T Johnston (Director)

The accompanying accounting policies and notes form part of these financial statements.

PERSONAL GROUP HOLDINGS PLC

BALANCE SHEET AT 31 DECEMBER 1997

	Note	1997 £000
Assets		
Investment in subsidiary undertakings	19	1,828
Current assets		
Debtors	20	307
Total assets		2,135
Capital and reserves		
Called up share capital	14	1,528
Profit and loss account	15	367
Shareholders' funds		1,895
Creditors: amounts falling due within one year	21	240
Total liabilities		2,135

The balance sheet at 31 December 1996 consisted of allotted called up and fully paid share capital of £2, and cash of £2.

The financial statements were approved by the Board on 31 March 1998

J Swarbrick (Chairman)

C W T Johnston (Director)

The accompanying accounting policies and notes form part of these financial statements.

PERSONAL GROUP HOLDINGS PLC

CONSOLIDATED CASHFLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 1997

Actual for 34 weeks ended 31 December 1996 £000		**Note**	**Actual for year ended 31 December 1997 £000**	**Proforma for year ended 31 December 1996 £000**
2,394	Net cash inflow from operating activities	22	3,402	3,290
(781)	**Taxation paid**		(984)	(1,027)
	Capital expenditure			
(137)	Purchase of fixed assets		(269)	(258)
23	Sale of fixed assets		112	30
-	Acquisitions		(70)	-
(794)	**Equity dividends paid**		(1,160)	(1,191)
-	**Capital element of finance lease rentals**		(28)	-
705	**Net cashflows**		1,003	844
	Cashflows were invested as follows:			
542	Increase in cash holdings		1,229	678
	Net portfolio investment			
163	Ordinary shares, loans and finance leases		(226)	166
705	**Net investment of cash flows**		1,003	844

The accompanying accounting policies and notes form part of these financial statements.

PERSONAL GROUP HOLDINGS PLC

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 1997

Actual for 34 weeks ended 31 December 1996 £000		**Actual for year ended 31 December 1997 £000**	**Proforma for year ended 31 December 1996 £000**
1,251	Profit for the financial year	2,111	1,973
41	Net unrealised gains on trade investments	104	94
(2)	Previously recognised element of realised gains on disposal	(74)	(11)
1,290	Total recognised gains for the year	2,141	2,056

The accompanying accounting policies and notes form part of these financial statements.

1 **Claims incurred net of reinsurance**

	Gross £000	Reinsurance £000	Net £000
Actual year ended 31 December 1997			
Claims paid	1,765	-	1,765
Claims handling expenses paid	253	-	253
	2,018	-	2,018
Increase in provision for claims handling costs	12	-	12
Change in claims provision	138	-	138
	150	-	150
Total	2,168	-	2,168
Proforma year ended 31 December 1996			
Claims paid	1,461	-	1,461
Claims handling expenses paid	241	-	241
	1,702	-	1,702
Increase in provision for claims handling costs	5	-	5
Change in claims provision	188	-	188
	193	-	193
Total	1,895	-	1,895

1 Claims incurred net of reinsurance (continued)

	Gross £000	Reinsurance £000	Net £000
Actual 34 weeks ended 31 December 1996			
Claims paid	952	-	952
Claims handling expenses paid	161	-	161
	1,113	-	1,113
Increase in provision for claims handling costs	2	-	2
Change in claims provision	219	-	219
	221	-	221
Total	1,334	-	1,334

2 Financial reinsurance costs

Actual 34 weeks ended 31 December 1996 £000		Actual year ended 31 December 1997 £000	Proforma year ended 31 December 1996 £000
1,510	Reinsurance premiums payable	2,404	2,215
5	Decrease in reinsurers share of unearned premiums	6	5
(883)	Reinsurance commission and profit share receivable	(1,369)	(1,319)
(597)	Reinsurance claims recoveries	(983)	(839)
35	Financial reinsurance payable	58	62

3 Other net operating expenses

Actual 34 weeks ended 31 December 1996 £000		Actual year ended 31 December 1997 £000	Proforma year ended 31 December 1996 £000
1,626	Acquisition costs	2,746	2,369
4	Decrease in deferred acquisition costs	6	5
1,630	Incurred acquisition costs	2,752	2,374
826	Administration expenses	1,474	1,288
2,456		4,226	3,662

Total commission incurred during the year in respect of direct insurance was £452,000 (1996 actual: £276,000, 1996 proforma: £422,000)

4 Administrative expenses

Actual 34 weeks ended 31 December 1996 £000		Actual year ended 31 December 1997 £000	Proforma year ended 31 December 1996 £000
	Administrative expenses include Policyholders Protection Act levy		
-	For the year ended 31 December 1997	66	-
41	For the year ended 31 December 1996	-	60
-	Over provision for the year ended 31 December 1995	(53)	-
(33)	Over provision for the year ended 31 December 1994	-	(50)
8	Charge for the year	13	10

5 Employee information

The average monthly number of employees (including executive directors) employed by the group was:

Actual 34 weeks ended 31 December 1996 Number		Actual year ended 31 December 1997 Number	Proforma year ended 31 December 1996 Number
29	Administration	36	29
44	Sales and marketing	48	44
73		84	73

Staff costs for the above employees were:

£000		£000	£000
1,414	Wages and salaries	2,310	2,034
137	Social security costs	239	206
16	Other pension costs	24	24
1,567		2,573	2,264

6 Directors' emoluments

Actual 34 weeks ended 31 December 1996 £000		Actual year ended 31 December 1997 £000	Proforma year ended 31 December 1996 £000
445	Emoluments	738	626
16	Pension contributions to money purchase pension schemes	24	24
461		762	650

During the year 1 director (1996: 1 director) participated in a money purchase pension scheme.

PERSONAL GROUP HOLDINGS PLC

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 1997

6 **Directors' emoluments (continued)**

The amounts set out above include remuneration in respect of the highest paid director as follows. All emoluments relate to payments made by subsidiary undertakings.

Actual 34 weeks ended 31 December 1996 £000		**Actual year ended 31 December 1997 £000**	**Proforma year ended 31 December 1996 £000**
281	Emoluments	453	409
16	Pension contributions to money purchase pension scheme	24	24

7 **Investment income**

Actual 34 weeks ended 31 December 1996 £000		**Actual year ended 31 December 1997 £000**	**Proforma year ended 31 December 1996 £000**
2	Income from listed investments	17	15
268	Income from cash on deposit	484	371
270		501	386
9	Realised gains	115	29
279		616	415

8 **Investment expenses and charges**

Actual 34 weeks ended 31 December 1996 £000		**Actual year ended 31 December 1997 £000**	**Proforma year ended 31 December 1996 £000**
2	Investment management expenses	7	5
-	Realised losses	19	1
2		26	6

9 Profit on ordinary activities before tax

Actual 34 weeks ended 31 December 1996 £000		Actual year ended 31 December 1997 £000	Proforma year ended 31 December 1996 £000
	Profit on ordinary activities before tax is stated after:		
	Auditors' remuneration (inclusive of non-recoverable VAT)		
11	Audit services	21	17
2	Non-audit services	8	2
128	Depreciation	218	184
61	Operating lease rentals - land & buildings	94	93

10 Taxation

Actual 34 weeks ended 31 December 1996 £000		Actual year ended 31 December 1997 £000	Proforma year ended 31 December 1996 £000
	The charge for taxation comprises		
	Current taxation		
810	UK corporation tax at 31.5% (1996: 33%)	1,000	1,004
2	Tax credit on franked investment income	2	3
	Over provision in respect of prior years:		
(8)	UK corporation tax	(13)	(12)
804		989	995

11 Dividends

Actual 34 weeks ended 31 December 1996 £000			Actual year ended 31 December 1997 £000	Proforma year ended 31 December 1996 £000
	On ordinary shares Interim dividends			
-	23 April 1996	26p per share	-	397
397	26 September 1996	26p per share	-	397
397	19 December 1996	26p per share	-	397
-	29 April 1997	17p per share	259	-
-	23 September 1997	33p per share	504	-
-	18 December 1997	26p per share	397	-
794			1,160	1,191

12 Other financial investments at mid market value

	The group 1997 £000	1996 £000
Shares and other variable yield securities and units in unit trusts listed on UK exchanges	537	680
Other loans	71	-
	608	680
Historical cost	406	508

13 Tangible assets

The group

	Motor vehicles £000	Computer equipment £000	Fixtures, furniture & fittings £000	Total £000
Cost				
At 1 January 1997	669	197	125	991
Additions in the year	328	33	8	369
Disposals in the year	(252)	(18)	(1)	(271)
At 31 December 1997	745	212	132	1,089
Depreciation				
At 1 January 1997	278	153	46	477
Charge for the year	174	26	18	218
Disposals in the year	(174)	(16)	-	(190)
At 31 December 1997	278	163	64	505
Net book value				
At 31 December 1997	467	49	68	584
At 31 December 1996	391	44	79	514

The net book value on assets held on finance lease contracts at 31 December 1997 was £113,275. Depreciation on these assets in the year was £7,571.

14 Share capital

Authorised

	No.	1997 £000	No.	1996 £000
Ordinary shares of £1 each	10,000,000	10,000	1,000	1

Allotted, called up and fully paid

	No.	1997 £000	No.	1996 £000
Ordinary shares of £1 each	1,527,397	1,528	2	-

Allotments during the year.

The company offered the shareholders of Personal Assurance plc a share for share exchange for ordinary shares in Personal Group Holdings plc. This exchange took place on 24 June 1997.

15 Reserves

	Investment revaluation reserve £000	The group Profit and loss account £000
At 1 January 1997	172	4,314
Profit retained	-	951
Goodwill written off	-	(66)
Realised on disposal	(74)	-
Unrealised movement on valuations	104	-
At 31 December 1997	202	5,199

There is a potential deferred tax liability of £64,000 (1996: £57,000) if the listed investments were realised at their book value.

15 Reserves (continued)

	The company Profit and loss account £000
At 1 January 1997	-
Profit retained	367
At 31 December 1997	367

16 Reconciliation of movement in shareholders' funds

	The group 1997 £000	1996 £000
Profit for financial year	2,111	1,973
Dividends	(1,160)	(1,191)
	951	782
Other recognised gains and losses	(36)	83
Net increase in shareholders' funds	915	865
Shareholders' funds at 1 January 1997	6,014	5,149
Shareholders' funds at 31 December 1997	6,929	6,014

17 Claims outstanding

	The group 1997 £000	1996 £000
Notified outstanding claims		
Gross	621	524
Reinsurance	-	-
	621	524
Provision for claims incurred but not reported	196	155
Claims handling expenses	59	47
	876	726

18 Other creditors

Other creditors in the group include finance lease payments amounting to £93,064 (1996: Nil) in respect of fixed asset purchases which are due within one year.

19 Company investment in subsidiary undertakings

	£000
Cost	
At 1 January 1997	-
Additions	1,828
At 31 December 1997	1,828

At 31 December 1997 the company held 100% of the allotted share capital of the following companies, all of which have been consolidated in the group financial statements with the exception of Personal Trust Company Ltd.

	Nature of business
Personal Assurance Plc	General insurance
Personal Insurance & Reinsurance Brokers Limited	Insurance broking
Personal Assurance Services Limited	Dormant
Personal Group Benefits Limited	Dormant
Personal Trust Company Limited *	Dormant

* held by Personal Assurance Plc

20 Company debtors

	1997 £000	1996 £000
Amounts due from subsidiary undertakings	307	-
	307	-

21 Company creditors: amounts falling due within one year

	1997 £000	1996 £000
Other creditors including taxation and social security	98	-
Amounts due to subsidiary undertakings	142	-
	240	-

22 Net cash inflow from operating activities

Actual 34 weeks ended 31 December 1996 £000		Actual year ended 31 December 1997 £000	Proforma year ended 31 December 1996 £000
2,055	Profit before taxation	3,100	2,968
128	Depreciation of tangible fixed assets	218	184
(4)	Profit on disposal of fixed assets	(31)	(7)
(19)	Profit on disposal of liquid investment	(96)	(28)
(42)	Change in debtors	(41)	(64)
209	Change in technical provisions	124	206
69	Change in creditors	130	34
(2)	Tax on franked investment income included within operating income	(2)	(3)
2,394		3,402	3,290

23 Movement in opening and closing portfolio investments net of financing

Actual 34 weeks ended 31 December 1996 £000		Actual year ended 31 December 1997 £000	Proforma year ended 31 December 1996 £000
542	Net cash inflow for period	1,229	678
	Cash flow		
163	Portfolio investments	(198)	166
-	Repayment of finance leases	(28)	-
705	Movements arising from cashflows	1,003	844
82	Changes in market values	126	111
787		1,129	955
	Portfolio investments net of financing		
6,361	At beginning of period	7,148	6,193
7,148	At end of period	8,277	7,148

24 Movement in cash, portfolio investments and financing

	At 1 January 1997 £000	Cash flow £000	Changes to market value £000	At 31 December 1997 £000
Cash at bank and in hand	6,468	1,229	-	7,697
Ordinary shares and loans	680	(198)	126	608
Finance leases	-	(28)	-	(28)
	7,148	1,003	126	8,277

25 Capital commitments

Neither the group nor the company had any capital commitments at 31 December 1997 or 31 December 1996

26 Contingent liabilities

There were no contingent liabilities at 31 December 1997 or 31 December 1996, other than that in respect of deferred taxation as detailed in note 15.

27 Leasing commitments

Group operating lease payments amounting to £94,047 (1996:£92,597) in respect of land and buildings are due within one year. The leases to which these amounts relate expire in five years or more.

28 Acquisition from related party

During the period Personal Insurance & Reinsurance Brokers Ltd purchased for cash the fixed assets and goodwill of the 'Insurance Shop' owned by Mr R Johnston, a brother of Mr CWT Johnston, a director and the controlling related party of the group, as follows:

	£000
Tangible fixed assets	7
Goodwill - written off to reserves	66
	73

£3,000 of the consideration remained unpaid at 31 December 1997 and is included in other creditors.

29 Controlling related party

C W T Johnston is the group's controlling related party by virtue of his shareholding.