METHODIST INSURANCE

Annual Report
2018

REGISTRATION NUMBER: 00006369

METHODIST INSURANCE PLC

REPORT AND ACCOUNTS 31 DECEMBER 2018

Methodist Insurance PLC

Report and Accounts 31 December 2018

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Methodist Insurance PLC specialises in the insurance of property and liability risks carried by churches belonging to the Methodist community and its associated organisations.

The Company aims to provide a first class service to all clients, to satisfy their needs and expectations and to deal promptly and responsibly with their claims.

As part of its Christian witness, the Company's investment portfolio is constructed on a basis consistent with the moral stance and teachings of the Methodist Church.

Officers and Professional Advisers

Directors	D. S. Walton DL, LLB *Chairman* A. G. Gibbs MA, FCA *Deputy Chairman* M. G. Angell ACII Revd. L. J. Barriball C. H. Boothman FRICS J. M. Coates ACII D. M. Crompton ACII Revd. P. H. Davis BA J. M. Hamilton BSc (Econ), FIA D. A. Rees (appointed 24th May 2018)
Company Secretary	Mrs R. J. Hall FCIS
CEO	M. G. Angell ACII
Auditor	KPMG LLP
Registered Office	Beaufort House, Brunswick Road, Gloucester, GL1 1JZ
Head Office	St. Ann's House St. Ann's Place Manchester, M2 7LP Tel: 0161 833 9696 Fax: 0161 833 1287
Company Registration Number	00006369

Directors' Biographies

D. S. Walton DL, LLB Chairman
Business and Development Committee member
First appointed to the Board in 2003
Chairman of the Board since 2012
Qualified as a solicitor and is a partner in DWF Law LLP. Former Vice-President of the Methodist Conference (2008-9) and chair of the Methodist Council (2009-12). He chairs the Law & Polity Committee of the Methodist Church and the Monitoring Group set up by the Anglican and Methodist Churches in 2015. He is also a trustee of the D'Oyly Carte Opera Trust.

A. G. Gibbs MA, FCA Deputy Chairman
Chair of Investment Committee, Audit, Risk and Compliance Committee member
First appointed to the Board in 1991
After graduating from Cambridge University, Andrew qualified as a chartered accountant in 1971 and spent four years working for Save the Children in Bangladesh and the Methodist Church in Côte d'Ivoire. On return to the UK he worked in investment management for the Church of England and Charities. He retired as Chief Executive of CCLA Investment Management in 2005. Andrew has been involved in the Methodist Church locally and nationally, having completed a six year term as Connexional Treasurer.

M. G. Angell ACII
Chief Executive Officer
First appointed to the Board in 2015
Michael, a qualified chartered insurer, is CEO of Methodist Insurance PLC and Church Operations Director of Ecclesiastical Insurance Office plc. He has over 30 years experience in the faith sector of the insurance industry. Michael is a director on the Board of Ecclesiastical Financial Advisory Services Limited and a former director of The Baptist Insurance Company plc. Outside work Michael is a keen sportsman and is chairman of the Gloucestershire Lawn Tennis Association and a councillor of the National LTA. He is also Deputy President of his local national league rugby club, Old Patesians RFC and is actively involved in his local church.

Revd. L. J. Barriball
Audit, Risk and Compliance Committee member
First appointed to the Board in 2005
Superintendent Minister of Camelford and Week St Mary Methodist Circuit. Her specialties include building projects and grant making in local churches as part of Mission and Ministry in developing church life. Her background was in accountancy and business management before becoming a Methodist Minister.

C. H. Boothman FRICS
Chair of Audit, Risk and Compliance Committee, Investment Committee member
First appointed to the Board in 1993
Appointed to the Board as a property valuation consultant. Colin is a lifelong Methodist and qualified as a chartered surveyor in 1976 and was a partner in Gleeds Construction Consultants responsible for the North West and latterly regional director for the Asia Pacific business. Former governor of Altrincham Grammar School and chair of the Development Company.

J. M. Coates ACII
Business and Development Committee member
First appointed to the Board in 2009
John is a chartered insurer and worked most recently as director of Church operations for Ecclesiastical Insurance Office plc before he retired in 2015 and was appointed a non-executive director. He is an Honorary Lay Canon at Gloucester Cathedral, a member of The Dean and Chapter and a Director of Gloucester Cathedral Enterprises Ltd.

D. M. Crompton ACII
Business and Development Committee member
First appointed to the Board in 2009
David is a Chartered Insurance Broker and an associate of the Chartered Insurance Institute. He is owner and managing director of an insurance broking company. David has a lifelong involvement with the Methodist Church and serves both his local Methodist Church and Circuit in various positions. He is also trustee of a local charity and former school governor.

Directors' Biographies

Revd. P. H. Davis BA

Chair of Business and Development Committee

First appointed to the Board in 2006

Paul is a Methodist Presbyter with over thirty-five years experience in ministry, twenty of them as a Superintendent. He currently serves as Chair of the Lancashire District. He has always been interested in how the church can best use its property for Worship, Service, and Evangelism. He is Chair of the Connexional Manse Trustees and was recently appointed to the board of Trustees of Methodist Church Purposes (TMCP).

J. M. Hamilton BSc (Econ), FIA

Audit, Risk and Compliance Committee member, Investment Committee member

First appointed to the Board in 2005

He is a retired actuary, having worked for thirty years for Britannic Assurance plc, followed by a period in consultancy. He is a director of Epworth Investment Management Ltd and a trustee and director of Carers Trust, Solihull.

D. A. Rees (appointed 24th May 2018)

Member of the Investment Committee

First appointed to the Board in 2018

Deborah has retired from a career in the City where she worked primarily for Kleinwort Benson, Merrill Lynch and Barclays. Having served on the Investment Committee of the Leprosy Mission International (TLMI) for many years she was elected to their Board and following completion of her term on that she is now a Pension Fund trustee for TLMI. She also manages the Diocese of Rochester Poverty and Hope Appeal and her local Church mission team.

Chairman's Statement

Chairman's review of business operations

The year has seen a positive financial outcome, albeit that conditions were not as benign as in the previous year, following the winter storms that occurred in the first quarter and an increase in large claims experienced.

The Company has maintained its income with a retention rate of 96.8%, being favourable to budget, along with some improved new business together, and with an overall decrease in its expense base.

The year continued to see political instabilities, as the government worked through negotiations with the European Union, and the outcome of these has remained uncertain. As a Board we will continue to monitor what impacts and opportunities such events may bring in the coming year, in addition to being alert to the threats of increased competition in the insurance market.

We keep under careful review the levels of service offered to our customers and satisfaction surveys reveal that these remain commendably high.

Financial results

The detailed financial results show gross written premiums of £9,854,513 (2017: £9,724,985) and profit commission of £1,925,110 (2017: £2,376,753) which, although a decline on the prior year result, was higher than the budgeted profit commission income. After expenses there was a positive result on underwriting of £1,662,433 (2017: £2,442,635).
A significant decrease in investment income resulted in the overall lower but still healthy operating profit of £1,014,605 (2017: £4,248,631).

Capital Adequacy

At 31 December 2018, as has been the case for many years, the Company's capital position remained very strong with 'Own Funds' for Solvency ll purposes of £19.630 million (2017: £18.948 million). All the prescribed capital requirements were comfortably exceeded.

Investments

The company's financial investments and the cash available for long term investment are managed by Sarasin & Partners, who are given discretion in the choice of investments and in asset allocation within parameters set and varied periodically by the Board.
In 2018 the value of the financial investments fell to £19,446,299 (2017: £20,721,884), largely on account of very weak equity markets in the final quarter. UK equities fell by 9.5% over the year and global equities by 7.7% while conventional gilts rose by 0.5%. The overall negative investment return was £647,828, net of investment expenses, driven by fair value losses.
The performance of the managers is measured against agreed benchmarks based upon market indices. In 2018 overall performance against the benchmark was marginally positive.

Asset Allocation

At the year end, considering the funds held by the Investment Manager, 39% was invested in bonds (chiefly short and medium dated conventional and index linked gilts, together with some corporate and overseas bonds), 24% in UK equities, 28% in global equities and 9% in cash and other investments.

Rolling three year return

The company aims to secure a positive return on its investments, expressed as the average annual net return after expenses over rolling three year periods. Despite the negative return in 2018, the average return remained positive for the last three calendar years, at 4.7% p.a.

Grants

Following the company's strong performance we have been able to pay grants totaling £1,505,000 (2017: £4,000,000) resulting in a planned loss of £490,395 (2017: profit £248,631) before tax.
We were able to make a donation to Notting Hill Methodist Church who had worked with the survivors of the Grenfell Tower fire.

Thanks

We are grateful to all the administration staff in Manchester and Gloucester who continue to provide the Company with such a high standard of service, and who receive consistent praise from our customers.

During the year we welcomed Deborah Rees to the Board and once again I would also like to record my appreciation to my fellow directors for their continuing support.

David S. Walton
Chairman on behalf of the Directors

Strategic Report

The directors present their strategic report for the year ended 31 December 2018.

Objective and strategy

Methodist Insurance PLC (the Company) is a public limited company incorporated and domiciled in the United Kingdom, authorised and regulated by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA).

The objective of the Company is to be the first choice insurer for Methodist church properties by running an ethical and profitable general insurance company helping communities to create safe environments for worship, witness and service. This is to be achieved by underwriting its cost of risk and providing risk management advice. The Company looks to maintain its strong capital position allowing them to continue on an ongoing basis to provide these services at a competitive cost along with reinvesting in the Methodist community via the provision of grants.

Business model

The principal activity of the Company is the transaction of fire, accident and ancillary liability insurance. The Company provides insurance and risk management advice for churches.

All insurance risks undertaken by the Company since 1998 are reinsured with Ecclesiastical Insurance Office plc ("EIO"), except eligible terrorism risks which are reinsured with Pool Re. It is anticipated that the activities of the Company will remain unchanged for the foreseeable future.

To help generate sustainable operating profits, the Company looks to achieve an effective cost base in providing its customers with the highest quality of service be it in buying services or making claims. To this endeavour the Company has outsourced its operational activaties to EIO, enabling the Company to provide its customers with a service from highly trained staff who are experts in their field at a competitive cost.

The Board monitor the service levels provided through the outsourced agreement on a monthly basis to ensure they meet expectations and that the Company is receiving value for money. These measures include but are not limited to telephony statistics, customer satisfaction, quotes issued and conversion to policies.

Review of business performance

The results of the Company for the year are shown in the statement of profit or loss on page 14.

Premium growth

Gross written premiums increased to £9,854,513 (2017: £9,724,985) representing an increase of 1.3% on the previous year. Premium increase can be attributed to the cessation of the planned premium reductions on church business and the overall impact of inflation.

Claims ratio

Our claims ratio (incurred claims to earned premiums) of 41.2% (2017: 15.1%) shows a 26.1 point increase on the previous year. The key driver for this variance has been the winter storms experienced during quarter 1 and higher cost of large claims in comparison to an exceptionally benign year in 2017.

Profit commission

The reinsurance treaty with Ecclesiastical Insurance Office continues. The profit commission receivable for the year based on the sharing of the net underwriting result was £1,784,350 (2017: £2,243,975) with the key driver being claims performance in both years.

Investment return

Following a downturn in the stock market during 2018 the Company's underlying investments delivered a negative return. The Company continues to monitor and review the investment strategy to ensure a balance between potential reward and future losses. The net investment return was a loss of £647,827 (2017: profit of £1,805,998).

Grants

The aim of the Company and the directors continues to be to support Methodist organisations. During 2018 charitable grants of £1,505,000 (2017: £4,000,000) were paid. This sum is largely made available as grants for circuits, districts and other bodies with Methodist values at their centre.

Strategic Report

Retained profits

The factors outlined above have all had an influence on the results for the year, a loss before tax of £490,395 (2017: profit £248,631). After the impact of tax and dividends, the amount of retained earnings has decreased by £461,088 (2017: £267,362 increase). The Company remains well capitalised as examined in note 4.

The directors consider that the Company is well placed to perform satisfactorily in the future.

Principal risks and uncertainties

The principal risks and uncertainties are:

- There is uncertainty regarding the eventual outcome of Brexit and the wider economic impacts that it could have. The Company considers that the only impact on the underwriting business is the ability to write premiums in Eire, the value of which are described in note 3, page 25. These represent less than 5% of the gross written premiums in 2018 and 2017. The Company has agreed, in principle, to introduce Ecclesiastical Insurance Office PLC to its customers, so as to enable Ecclesiastical Insurance Office PLC to offer to renew the relevant Eire policies at an arm's length market price, effective from the date the UK leaves the EU. It is also noted that there is greater equity price risk with regard to the investment portfolio if Brexit leads to greater market volatility.
- the Company has adverse development protection cover from EIO. The Company is exposed to the risk of claims being incurred above the current level of provisions, up to the point at which the reinsurance cover takes effect;
- the impact on profit commission if there are underwriting losses or significantly adverse claims experience. This is disclosed further under note 3 – Insurance risk;
- investment returns and the security of the investment portfolio. Financial risk is discussed in more detail in note 4 - Financial risk and capital management; and
- the reliance on EIO from an operational perspective. This is highlighted further in note 4.

Non-financial information statement

As an authorised insurance entity the Company is covered by sections 414CA and 414CB of the Companies Act 2006 (CA 2006). The Company has opted to take exemption in accordance with subsection 4(b) of s.414CA, and has not prepared the non financial information statement in the strategic report as it has no employees.

By order of the board

Mrs R. J. Hall
Secretary
11 April 2019

Directors' Report

The directors present their annual report and financial statements for the year ended 31 December 2018.

Future prospects

It is anticipated that the activities of the company will remain unchanged for the foreseeable future.

Going concern

The Company reinsures all of its current business, except for terrorism cover, with EIO, who also provide administrative services within a profit share arrangement. Therefore, except for investment, credit and counterparty risk, and the adverse development of certain pre - 1998 insurance risks, its financial risks are ultimately borne by the Ecclesiastical group, which has considerable financial resources. As a consequence, the directors believe the group is well placed to manage such risks in the foreseeable future, despite the current uncertain economic outlook. The directors also consider they have provided adequately for risks not reinsured with EIO and, as such, they continue to adopt the going concern basis in preparing the Annual Report and financial statements.

Dividends

The directors recommend the payment of dividends on the amounts paid up on the Company's ordinary shares, for the year ended 31 December 2018, absorbing the sum of £188 (2017: £188). This equates to a dividend of 1p per share (2017: 1p per share).

Political Donations

The Company did not make any contributions for political purposes in the current or prior year.

Directors

The directors of the Company at the date of this report are stated on page 2.

D.A Rees was appointed as a director on 24 May 2018. In accordance with the Articles of Association, she retires at the forthcoming annual general meeting and, being eligible, offers herself for election.

The following Directors retire by rotation and, being eligible, offer themselves for re-election:-
C.H.Boothman
J.M.Hamilton
J.M.Coates
D.M.Crompton

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were in place throughout the year and remain in force at the date of this report.

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Directors' Report

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditor and the disclosure of information to the auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information. This confirmation is given and should be interpreted in accordance with Section 418 of the CA 2006.

In accordance with Section 489 of the CA 2006, a resolution proposing that KPMG LLP be re-appointed as auditor of the company will be put to the annual general meeting.

By order of the board

Mrs R. J. Hall
Secretary
11 April 2019

Independent auditor's report to the members of Methodist Insurance PLC

1. Our opinion is unmodified

We have audited the financial statements of Methodist Insurance Plc ("the Company") for the year ended 31 December 2018 which comprise the Statement of Financial Position, the Statement of Profit and Loss, the Statement of Comprehensive income, the Statement of Cash Flows, the Statement of Changes in Equity, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors before 30 June 1986. The period of total uninterrupted engagement is for more than 33 financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality Financial statements as a whole	£117k (2017:£120k) 1% (2017: 1%) of Gross written premium and commission income	
Key audit matters		**vs 2017**
Event driven	New: The impact of uncertainties due to the UK exiting the European Union on our audit ("Brexit")	▲
Recurring risk	Insurance contract liabilities	◄►

Independent Auditor's Report

2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit ("Brexit") Refer to page 7 (Strategic report).	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. These depend on assessments of the future economic environment and the Company's future prospects and performance. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: - **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the Company's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks; - **Assessing transparency:** We considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** - We found disclosures of these matters and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Independent Auditor's Report

	The risk	Our response
Net Claims Outstanding Net claims outstanding £7.7m; 2017: £7.8m *Refer to page 25 (accounting policy) and page 42 (financial disclosures).*	**Subjective valuation** The valuation of insurance contract liabilities requires significant judgement and actuarial expertise. The calculation of the actuarial best estimate and the margin over best estimate uses historical data, which is sensitive to external inputs and requires assumptions to be made in respect of current and future experience. Small changes in the assumptions and estimates used to value the insurance contract liabilities can have a significant impact on the overall liability valuation. Since 1998 the company has reinsured substantially all the insurance risk and therefore the key audit matter relates to the pre-July 1998 insurance contract liabilities. There is significant uncertainty in relation to the calculation of these liabilities as they relate to claims of abuse and these claim levels may be volatile. The effect of these matters is that, as part of our risk assessment, we determined that the insurance contract liabilities had a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 22) disclose the sensitivity estimated by the Company.	Our procedures included: - **Methodology choice:** our actuarial specialists assessed the methodology used by the company to estimate the reserves. - **Test of details:** Assessed the value of case reserves through enquiry of management regarding changes in the period, obtaining and inspecting supporting documentation and agreeing settlements during the year and subsequent to year end. - **Our actuarial expertise:** using our own actuarial specialists, inspecting the claims reserving report and evaluating and considering the reasonableness of the assumptions relating to current and future experience, including average costs and survival ratios. This is done by comparing them to expectations based on the Company's historical experience, current trends and our own industry knowledge. - **Assessing transparency:** assessing the Company's disclosures relating to the insurance contract liabilities, in particular in relation to key assumptions. **Our results** - We found the valuation of the insurance contract liabilities to be acceptable (2017 result: acceptable).

3. Our application of materiality and an overview of the scope of our audit

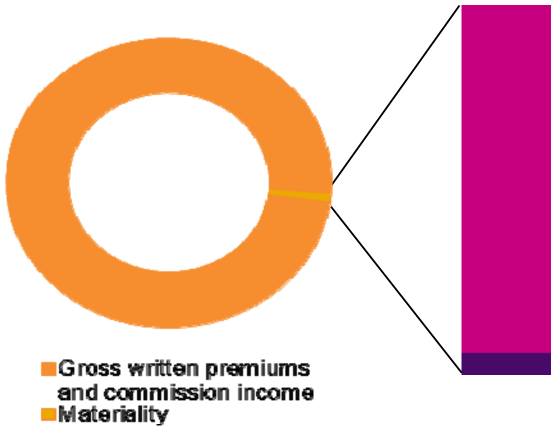
Materiality for the financial statements as a whole was set at £117k (2017: £120k), determined with reference to a benchmark of Gross written premiums and Commission income, of which it represents 1% (2017: 1%). We consider Gross written premiums and Commission income to be the most appropriate benchmark as it provides a more stable measure year on year than profit before tax.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £5.8k (2017: £6k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality level specified above and was all performed at the Company's registered office in Gloucester and Head office in Manchester.

Gross written premiums and commission income
£11.8m (2017: £12m)

Materiality
£117k (2017: £120k)



£117k
Whole financial statements materiality (2017: £120k)

£5.8k
Misstatements reported to the audit risk and compliance committee (2017: £6k)

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources over this period were:

- The inability of the reinsurer, Ecclesiastical, to honour its reinsurance obligations;
- Potentially volatile claims in relation to historic abuse cases; and
- A deterioration in the valuation of the Company's investments

As these risks could potentially cast significant doubt on the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Company's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit on the valuation of the Company's investments, and the erosion of customer or reinsurer confidence, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 8, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect
a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.
Firstly, the company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of company's licence to operate. We identified the area of regulatory capital and liquidity as that most likely to have such an effect, recognising the financial and regulated nature of the company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Independent Auditor's Report

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Alain de Braekeleer
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign St.
Leeds, LS1 4DA
11 April 2019

Statement of Profit or Loss

for the year ended 31 December 2018

	Notes	2018	2017
Revenue		£	£
Gross written premiums	5	9,854,513	9,724,985
Outward reinsurance premiums	5	(9,854,513)	(9,724,985)
Net change in provision for unearned premiums	5	-	-
Net earned premiums	5	-	-
Commission income	6	1,925,110	2,376,753
Net investment return	7	(647,827)	1,805,998
Total revenue		1,277,283	4,182,751
Expenses			
Claims and change in insurance liabilities	8	(4,057,768)	(1,468,610)
Reinsurance recoveries	8	4,027,176	1,810,032
Commissions and other acquisition costs	9	(89,116)	(89,650)
Other operating and administrative expenses	10	(142,970)	(185,892)
Total operating expenses		(262,678)	65,880
Operating profit	11	1,014,605	4,248,631
Charitable grants	14	(1,505,000)	(4,000,000)
(Loss)/profit before tax		(490,395)	248,631
Tax credit	15	29,307	18,731
(Loss)/profit attributable to equity holders		(461,088)	267,362

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

Statement of Comprehensive Income

for the year ended 31 December 2018

	2018	2017
	£	£
(Loss)/profit for the year after tax	(461,088)	267,362
Other comprehensive income, net of tax	-	-
Total comprehensive income for the year	(461,088)	267,362

Statement of Financial Position

at 31 December 2018

	Notes	2018	2017
Assets		**£**	£
Pension assets	17	**-**	-
Financial investments	18	**19,446,299**	20,721,884
Reinsurers' share of insurance contract liabilities	22	**14,654,164**	14,190,814
Current tax recoverable		**3,425**	6,904
Other assets	19	**1,216,565**	1,131,430
Cash and cash equivalents	20	**5,234,871**	4,170,621
Total assets		**40,555,324**	40,221,653
Equity			
Share capital	21	**112,500**	112,500
Retained earnings		**16,786,511**	17,247,787
Total shareholders' equity		**16,899,011**	17,360,287
Liabilities			
Insurance contract liabilities	22	**22,356,968**	22,025,109
Deferred tax liabilities	23	**67,584**	96,891
Other liabilities	24	**1,231,761**	739,366
Total liabilities		**23,656,313**	22,861,366
Total shareholders' equity and liabilities		**40,555,324**	40,221,653

The financial statements of Methodist Insurance PLC, company registration number 00006369, on pages 17 to 47 were approved and authorised for issue by the Board of Directors on 11 April 2019 and signed on its behalf by:

D. S. Walton *Chairman*

C. H. Boothman *Director*

Statement of Changes in Equity

for the year ended 31 December 2018

	Share capital £	Retained earnings £	Total £
At 1 January 2017	112,500	16,980,613	17,093,113
Profit for the year	-	267,362	267,362
Other comprehensive income	-	-	-
Dividends	-	(188)	(188)
At 31 December 2017	112,500	17,247,787	17,360,287
Loss for the year	**-**	**(461,088)**	**(461,088)**
Other comprehensive income	**-**	**-**	**-**
Dividends	**-**	**(188)**	**(188)**
At 31 December 2018	**112,500**	**16,786,511**	**16,899,011**

Statement of Cash Flows

for the year ended 31 December 2018

	2018	2017
	£	£
(Loss)/profit before tax	**(490,395)**	248,631
Adjustments for:		
Net fair value losses/(gains) on financial investments	**918,112**	(1,230,038)
Income from investments	**(551,205)**	(592,295)
Changes in operating assets and liabilities:		
Net increase/(decrease) in insurance contract provisions	**331,859**	(1,499,309)
Net (increase)/decrease in reinsurers' share of contract provisions	**(463,350)**	903,616
Net (increase)/decrease in other assets	**(82,695)**	245,895
Net increase in other liabilities	**492,395**	242,488
Cash generated/(used) by operations	**154,721**	(1,681,012)
Dividends received	**418,192**	476,410
Interest received	**130,573**	142,657
Income tax received	**3,479**	510
Net cash from/(used by) operating activities	**706,965**	(1,061,435)
Cash flows from investing activities		
Sales of financial investments	**6,447,000**	5,514,890
Purchases of financial investments	**(6,089,527)**	(4,352,001)
Net cash from investing activities	**357,473**	1,162,889
Cash flows from financing activities		
Dividends paid to company's shareholders	**(188)**	(188)
Net cash used by financing activities	**(188)**	(188)
Net increase in cash and cash equivalents	**1,064,250**	101,266
Cash and cash equivalents at beginning of year	**4,170,621**	4,069,355
Cash and cash equivalents at end of year	**5,234,871**	4,170,621

Notes to the Financial Statements

1 Accounting policies

The principal accounting polices adopted in preparing the Company's financial statements are set out below. These policies have been applied consistently throughout the current and prior financial year.

Basis of preparation

The Company's financial statements have been prepared with accounting policies applied in accordance with IFRSs as issued by the International Accounting Standards Board and endorsed by the EU. The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments.

The Company has elected not to produce consolidated financial statements. The subsidiary disclosed in note 27 is dormant, having not traded since incorporation. The exemption in CA 2006 s402 and s405(2) is taken as the subsidiary is not material to the financial statements.

The directors consider they have provided adequately for risks not reinsured with Ecclesiastical Insurance Office plc and, as such, they continue to adopt the going concern basis in preparing the annual report and accounts.

In accordance with IFRS 4, *Insurance Contracts* , the Company has applied existing accounting practices for insurance contracts, modified as appropriate to comply with the IFRS framework and applicable standards.

New and revised standards

In the current year the company has adopted amendments to IFRS 4 *Insurance Contracts* , and IFRS 15 *Revenue from Contracts with Customers* . Other Standards adopted in the current year are either outside the scope of company transactions or do not materially impact the company.

The amendment to IFRS 4 which permits an insurer to take the temporary exemption from applying IFRS 9 Financial Instruments, became applicable to the company in the year. The company qualifies for the temporary exemption, which is available until annual periods beginning on or after 1 January 2021, since at 31 December 2015 greater than 90% of the company's liabilities were within the scope of IFRS 4. There has been no significant change to the company's operations since that date and as a result the company continues to apply IAS 39 Financial Instruments.

Additional disclosures as a result of the the amendments to IFRS 4 are included in note 4.

IFRS 15 introduced a five-step approach to revenue recognition and established principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

The Company has applied IFRS 15 using the modified approach, recognising any cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earning as at 1 January 2018. The adoption of IFRS 15 did not have a material effect on accounting for the Company's non-insurance fee and commission income, and the financial statements have not been restated. Minor amendments have been made to the Company's accounting policies to clarify the point at which non-insurance commissions are recognised.

Notes to the Financial Statements

The following Standards were in issue but not yet effective and have not been applied in these financial statements.

Accounting Standard	Key requirements	Expected impact on financial statements	Effective date
IFRS 9, *Financial Instruments*	Provides a new model for the classification and measurement of financial instruments, a single, forward-looking 'expected loss' impairment model and a reformed approach to hedge accounting.	It is expected that equity instruments will continue to be measured at fair value through profit or loss. There is a possibility that the measurement of certain debt instruments will change to amortised cost or fair value through other comprehensive income, although this is being assessed. The Company is eligible for and has adopted the deferral approach, which gives a temporary exemption from applying IFRS 9 until the effective date of 'IFRS 17, Insurance contracts'.	Annual periods beginning on or after 1 January 2018. Although can be deferred until 2021 for insurers.
Accounting Standard	**Key requirements**	**Expected impact on financial statements**	**Effective date**
IFRS 17, *Insurance Contracts*	Requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts.	IFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. The standard was issued in May 2017 as replacement for 'IFRS 4 Insurance Contracts' and the impact of the standard on the financial statements is still being assessed. The Company expects to be able to use the simplified premium allocation approach to the majority of its insurance contracts, which applies mainly to short-duration contracts.	Applicable to annual reporting periods beginning on or after 1 January 2021 (subject to EU endorsement). A one-year deferral has tentatively been proposed by the IASB subject to due process.

The other Standards in issue but not yet effective, including IFRS 16, are not expected to materially impact the Company.

Use of estimates

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Notes to the Financial Statements

Foreign currency translation

Transactions in foreign currencies are translated into sterling using an average exchange rate, as a proxy for the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined.

Product classification

Contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder, are classified as insurance contracts. Contracts that do not transfer significant insurance risk are classified as investment or service contracts. All contracts offered by the Company meet the definition of an insurance contract.

Premium income

Premiums are shown gross of commission paid to intermediaries and accounted for in the period in which the risk commences. Estimates are included for premiums not notified by the year end and provision is made for the anticipated lapse of renewals not yet confirmed. The proportion of premiums written in a year which relates to periods of risk extending beyond the end of the year are carried forward as unearned premiums.

Premiums written 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.

Fee and commission income

Fee and commission income primarily comprises reinsurance commissions receivable and is recognised on the trade date in accordance with IFRS 4 *Insurance Contracts* . Non-insurance commissions receivable are accounted for in accordance with IFRS 15 *Revenue from contracts with customers* , and are recognised at the point at which the Company satisifies its performance obligation. Where this income is variable, it is recognised at the point at which it is reasonably certain that no significant reversal of the amount recognised would occur.

Reinsurance commission relates to a profit share receivable on the Reinsurance agreement between Methodist Insurance Company and EIO. The profit commission receivable is calculated based on the net underwriting result of these contracts during the year.

Net investment return

Investment income consists of dividends and interest receivable for the year, realised gains and losses, unrealised gains and losses including currency translation movements on fair value investments, less investment expenses and charges. Dividends on equity securities are recorded as revenue on the ex-dividend date, interest income is recognised as it accrues.

Realised gains or losses represent the difference between the net sales proceeds and purchase price or, if previously valued, the valuation at the last year end date. Unrealised gains and losses represent the difference between the valuation of investments at the year end date and their purchase price or, if they have been previously valued, their valuation at the last year end date.

Notes to the Financial Statements

Claims

General insurance claims incurred include all losses occurring during the year, whether reported or not, related handling costs, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Insurance contract liabilities

(i) *Outstanding claims provisions*

General insurance outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the year end date, whether reported or not. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, the ultimate cost of which cannot be known with certainty at the year end date. Any estimate represents a determination within a range of possible outcomes. Claims provisions are not discounted.

(ii) *Provision for unearned premiums*

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as a provision for unearned premiums. The change in this provision is taken to the statement of profit or loss in order that revenue is recognised over the period of risk.

(iii) *Liability adequacy*

Provision for unexpired risks is made where it is anticipated, on the basis of information available at the year end date, that claims and administrative expenses are expected to exceed unearned premiums, after taking account of future investment income. Unexpired risks are assessed separately for each class of business. Surpluses and deficits are offset where business classes are considered to be managed together.

Reinsurance

The Company has a reinsurance treaty with Ecclesiastical Insurance Office plc whereby all business accepted by the company after July 1998 is fully reinsured with Ecclesiastical Insurance Office plc with the exception of terrorism cover which is reinsured through Pool Re. Reinsurance premiums are accounted for at the time the business is written by the Company. The Company's and the reinsurers' share of claims are recognised at the time the claims are notified or earlier by way of a provision for claims incurred but not reported.

The Company has protection cover with Ecclesiastical Insurance Office plc that limits the Company’s liability to adverse development in historical claims.

If a reinsurance asset is impaired, the Company reduces the carrying amount accordingly and recognises that impairment loss in the statement of profit or loss. A reinsurance asset is impaired if there is objective evidence that, as a result of an event occurring after initial recognition, the Company may not receive all the amounts due to it under the terms of the contract, and the impact of the event on the amounts that the Company will receive can be reliably measured.

Financial instruments

IAS 39 *Financial Instruments: Recognition and Measurement* requires the classification of certain financial assets and liabilities into separate categories for which the accounting requirement is different.

The classification depends on the nature and purpose of the financial assets and liabilities, and is determined at the time of initial recognition. Financial instruments are initially measured at fair value. Their subsequent measurement depends on their classification:

- Financial instruments designated as at fair value through profit or loss and available-for-sale financial assets are subsequently carried at fair value. Changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, all other changes in fair value are recognised through profit or loss in the period in which they arise; and
- All other financial assets and liabilities are held at amortised cost, using the effective interest method.

The directors consider that the carrying value of those financial assets and liabilities not carried at fair value in the financial statements approximates to their fair value.

Offset of financial assets and financial liabilities
Financial assets and liabilities are offset, and the net amount reported in the statement of financial position, when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Financial investments
The Company classifies its quoted investments as financial assets designated at fair value through profit or loss, as these investments are managed, and their performance evaluated, on a fair value basis.

Purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the assets, at their fair value adjusted for transaction costs. Investments classified at fair value through profit or loss are subsequently carried at fair value, with changes in fair value recognised through profit or loss in the period in which they arise.

The fair values of investments are based on quoted bid prices.

Derivative financial investments
Derivative financial instruments include foreign exchange contracts. All derivatives are initially recognised in the statement of financial position at their fair value, which usually represents their cost, if any, including any premium paid, and are subsequently remeasured at their fair value. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities in the statement of financial position as they do not represent the fair value of these transactions.

Receivables arising from insurance and reinsurance contracts
Receivables arising from insurance and reinsurance contracts are initially recognised at fair value and subsequently measured at amortised cost. Interest income on receivables is recognised on the effective interest rate basis.

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms.

Cash and cash equivalents
Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts.

Provisions and contingent liabilities
Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset when the reimbursement is virtually certain.

The Company recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation but either an outflow of resources is not probable or the amount cannot be reliably estimated.

Employee benefits

The Company previously had exposure to a defined benefit pension scheme providing benefits based on final pensionable salary for which Ecclesiastical Insurance Office plc was the sponsoring employer. The assets of the scheme were held separately from those of the Company. The pension obligation was discharged in 2015.

In accordance with IAS 19 (Revised), current and past service costs, gains and losses on curtailments and settlements and net interest expense or income (calculated by applying a discount rate to the net defined benefit liability or asset), are recognised through profit or loss. Actuarial gains or losses are recognised in full in the period in which they occur in other comprehensive income.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the statement of profit or loss except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable/(receivable) on the taxable result for the period and any adjustment to the tax payable in respect of previous periods.

Deferred tax is provided in full on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax is measured using tax rates expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled based on tax rates and law which have been enacted or substantively enacted at the year end.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are not discounted.

Appropriations

Dividends on ordinary shares are recognised in equity in the period in which they are approved by members.

2 Critical accounting estimates, and judgements in applying accounting policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are regularly reviewed and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The ultimate liability arising from claims made under general business insurance contracts

The estimation of the ultimate liability arising from claims made under general business insurance contracts is a critical accounting estimate. The amount that the Company will ultimately pay with respect to such contracts is uncertain and will vary with the total number of claims made on each class of business, the amounts that claims settle for and the timings of payments.

The uncertainties surrounding the estimates of claims payments for the various classes of business are discussed further in note 3. General business insurance liabilities include a margin for risk and uncertainty in addition to the best estimates for future claims. The sensitivity of profit or loss in changes to the ultimate settlement cost of claims reserves is presented in note 22.

3 Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is unpredictable and difficult to quantify with certainty.

The principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities, which may occur if the frequency or severity of claims and benefits are greater than estimated. Insurance events are unpredictable and the actual level of claims and benefits may vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger and more diversified the portfolio of similar insurance contracts, the smaller the variability about the expected outcome will be. As a niche market operator the Company's opportunity to diversify the type of insurance risks is limited, however, some diversity is achieved by the geographical spread of its business.

General business risks

General insurance business classes written include property and liability. Property cover mainly compensates the policyholder for damage suffered to their properties or for the value of property lost. Property may also include cover for pecuniary loss through the inability to use damaged insured properties. Liability insurance contracts protect policyholders from the liability to compensate injured employees (employers' liability) and third parties (public liability). Injury, death or incapacity as a result of an unforeseen event is covered by the accident class of business.

In all operations pricing controls are in place, underpinned by sound statistical analysis, market expertise and appropriate external consultant advice. The Company manages risks to limit severity through its underwriting strategy, a comprehensive reinsurance programme and proactive claims handling.

Frequency and severity of claims

(i) *Property classes*

For property insurance contracts, the number of claims made can be affected by weather events, changes in climate and crime rates. Individual claims can vary in amount since the properties insured are diverse in both size and nature. The cost of repairing property varies according to the extent of damage, cost of materials and labour charges.

Climate change may give rise to more frequent and severe extreme weather events, such as river flooding, hurricanes and drought, and their consequences, for example, subsidence claims.

The maximum claim payable is limited to the sum insured. The Company has the right to re-price the risk on renewal. It also has the ability to impose deductibles, reject fraudulent claims and pursue third parties for payment of some or all costs. These contracts are underwritten on a reinstatement basis or repair and renovation basis as appropriate. Costs of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims. Individual large claims are more likely to arise from fire, storm or flood damage. The greatest likelihood of an aggregation of claims arises from weather related events.

(ii) *Liability classes*

For liability insurance contracts, the frequency and severity of claims can be affected by several factors. The most significant are the increasing level of awards for damages suffered and the increase in the number of cases that were latent for a long period of time. Inflation, from these and other sources, is a significant factor due to the long period typically required to settle these claims.

The Company has the right to re-price the risk on renewal. It also has the ability to impose deductibles, reject fraudulent claims and pursue third parties for payment of some or all costs. The severity of bodily injury claims is highly influenced by the value of loss of earnings and the future cost of care.

Concentrations of risk

The underwriting strategy is designed to ensure that the underwritten risks are well diversified by type, amount of risk and geographical spread. The Company protects its gross underwriting exposure through the use of a comprehensive programme of reinsurance. The concentration of insurance risk for the financial year before and after reinsurance by territory in relation to the type of risk accepted is summarised below, with reference to written premiums:

		Type of risk			
		Property	**Liability**	**Accident**	**Total**
		£	**£**	**£**	**£**
2018					
United Kingdom	Gross	**7,074,943**	**2,065,930**	**325,273**	**9,466,146**
	Net	**-**	**-**	**-**	**-**
Eire	Gross	**260,460**	**116,773**	**11,134**	**388,367**
	Net	**-**	**-**	**-**	**-**
Total	Gross	**7,335,403**	**2,182,703**	**336,407**	**9,854,513**
	Net	**-**	**-**	**-**	**-**
2017					
United Kingdom	Gross	7,027,359	1,978,855	315,735	9,321,949
	Net	-	-	-	-
Eire	Gross	264,572	127,748	10,716	403,036
	Net	-	-	-	-
Total	Gross	7,291,931	2,106,603	326,451	9,724,985
	Net	-	-	-	-

As noted in the principal risks and uncertainties on page 7, the Company has agreed, in principle, to introduce Ecclesiastical Insurance Office PLC to its customers so as to enable Ecclesiastical Insurance Office PLC to offer to renew the relevant Eire policies at an arm's length market price effective from the date the UK leaves the EU.

Sources of uncertainty in the estimation of future claim payments

(i) *Property classes*

The property classes give rise to a variety of different types of claims including fire, business interruption, weather damage, subsidence and theft. There can be variability in both the number of claims in each period and the size of those claims. If a weather event happens near the end of the financial year, then the uncertainty about ultimate claims cost in the financial statements is much higher because there is insufficient time for adequate data to be received to assess the final cost of claims.

Claims payment, on average, occurs within a year of the event that gives rise to the claim, however there is variability around this average with larger claims typically taking longer to settle.

Subsidence claims are difficult to predict because the damage is often not apparent for some time. Changes in soil moisture conditions can give rise to changes in claims volume over time. The ultimate settlements can be small or large with a greater risk of a settled claim being re-opened at a later date.

(ii) *Liability classes*

The settlement value of claims arising under public and employers' liability is particularly difficult to predict. There is uncertainty as to whether any payments will be made and if they are, the amount and timing of the payments. Key factors driving the high levels of uncertainty include the late notification of possible claim events and the legal process.

Late notification of possible claims necessitates the holding of provisions for incurred claims that may only emerge some years into the future. In particular the effect of inflation over such a long period can be considerable and is uncertain. A lack of comparable past experience makes it difficult to quantify the number of claims and, for certain types of claims, the amounts for which they will ultimately settle. The legal and legislative framework continues to develop, having a consequent impact on the uncertainty as to the length of the claims settlement process and the ultimate settlement amounts.

Claims that may arise from the liability portfolios include damage to property, physical injury, disease and psychological trauma. The exposure profile of the Company is different from most other commercial lines insurance companies as it has lower exposure to industrial risks, where uncertainty is higher. Therefore, claims for industrial diseases are less common for the Company than injury claims such as slips, trips and back injuries.

Claims payment, on average, occurs about three years after the event that gives rise to the claim. However, there is significant variability around this average.

Note 22 presents the development of the estimate of ultimate claim cost for public and employers' liability claims occurring in a given year. This gives an indication of the accuracy of the estimation technique for incurred claims.

(iii) *Sources of uncertainty*

The ultimate settlement cost of incurred general insurance claims is inherently uncertain. Such uncertainty includes:

- whether a claim event has occurred or not and how much it will ultimately settle for;
- variability in the speed with which claims are notified and in the time taken to settle them, especially complex cases resolved through the courts;
- changes in the business portfolio affecting factors such as the number of claims and their typical settlement costs, which may differ significantly from past patterns;
- new types of claim, including latent claims, which arise from time to time;
- changes in legislation and court attitudes to compensation, which may apply retrospectively;
- the way in which certain reinsurance contracts (principally liability) will be interpreted in relation to unusual and latent claims where aggregation of claimants and exposure over time are a factor; and
- whether all such reinsurances will remain in force over the long term.

(iv) *Prudence in the provisions for outstanding claims*

The Company has taken into account the uncertain nature of claims reporting and settlement when provisioning for outstanding claims.

(v) *Special provisions for latent claims*

The public and employers' liability classes can give rise to very late reported claims, which are often referred to as latent claims. These can vary in nature and are difficult to predict. They typically emerge slowly over many years. The Company has taken a prudent approach to reflect this uncertainty and believes that it holds adequate reserves for latent claims that may result from exposure periods up to the reporting date.

4 Financial risk and capital management

The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of financial risk are interest rate risk, credit risk, liquidity risk, currency risk, and equity price risk.

There has been no change from the prior period in the financial risks that the Company is exposed to, or the manner in which it manages and measures these risks.

Notes to the Financial Statements

Categories of financial instruments

	Financial assets		Financial liabilities		Non-financial	
	Designated at fair value	Loans and receivables	Designated at fair value	at cost	assets and liabilities	Total
As at 31 December 2018	**£**	**£**	**£**	**£**	**£**	**£**
Financial investments	**19,445,301**	**-**	**-**	**-**	**998**	**19,446,299**
Other assets	**-**	**1,212,832**	**-**	**-**	**3,733**	**1,216,565**
Cash and cash equivalents	**-**	**5,234,871**	**-**	**-**	**-**	**5,234,871**
Other liabilities	**-**	**-**	**(5,791)**	**(851,769)**	**(374,201)**	**(1,231,761)**
Total	**19,445,301**	**6,447,703**	**(5,791)**	**(851,769)**	**(369,470)**	**24,665,974**
Net other liabilities						**(7,766,963)**
Net assets						**16,899,011**
As at 31 December 2017						
Financial investments	20,720,886	-	-	-	998	20,721,884
Other assets	-	1,127,696	-	-	3,734	1,131,430
Cash and cash equivalents	-	4,170,621	-	-	-	4,170,621
Other liabilities	-	-	(5,871)	(369,275)	(364,220)	(739,366)
Total	20,720,886	5,298,317	(5,871)	(369,275)	(359,488)	25,284,569
Net other liabilities						(7,924,282)
Net assets						17,360,287

The company classifies and measures financial instruments using IAS 39 as disclosed in the accounting policies. The table below sets out the fair value of financial assets as at the balance sheet date and the change in fair value during the year, based on the classification and measurement requirements that would result from adopting IFRS 9.

Financial assets measured at amortised cost includes all financial assets which give rise to cashflows which are solely payments of principal and interest, other than those whose performance is evaluated on a fair value basis. All other assets are measured at fair value.

	Measurement basis		
	Fair value	**Amortised cost**	**Total**
Carrying value at 1 January 2018	20,720,886	5,298,317	26,019,203
Change in fair value during the year	(1,275,585)	1,149,386	(126,199)
Carrying value at 31 December	19,445,301	6,447,703	25,893,004

The directors consider that the carrying value of those financial assets not carried at fair value in the financial statements approximates to their fair value.

Notes to the Financial Statements

Fair value hierarchy

The fair value measurement basis used to value financial assets and financial liabilities held at fair value is categorised into a fair value hierarchy as follows:

Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities. This category includes listed equities in active markets, listed debt securities in active markets and exchange traded derivatives.

Level 2: fair values measured using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes listed debt or equity securities in a market that is not active and derivatives that are not exchange traded.

Level 3: fair values measured using inputs for the asset or liability that are not based on observable market data (unobservable inputs). This category includes unlisted equities, including investments in venture capital, and suspended securities.

All financial investments held by the Company and designated at fair value are classified as level 1 except for derivative financial instruments which are classified as level 2.

Analysis of fair value measurement bases	**Fair value measurement at the end of the reporting period based on**			
	Level 1	**Level 2**	**Level 3**	**Total**
	£	**£**	**£**	**£**
As at 31 December 2018				
Financial investments				
Equity securities	12,286,561	-	-	12,286,561
Debt securities	757,163	6,400,621	-	7,157,784
Derivatives	956	-	-	956
	13,044,680	6,400,621	-	19,445,301
As at 31 December 2017				
Financial investments				
Equity securities	14,310,451	-	-	14,310,451
Debt securities	328,811	6,058,785	-	6,387,597
Derivatives	22,838	-	-	22,838
	14,662,101	6,058,785	-	20,720,886

The derivative financial instruments are foreign currency forward contracts and are valued using observable exchange rates and rates corresponding to the naturity of the contract. At 31 December 2018, £956 (2017: £22,838) of derivative financial instruments were included in financial investments and £5,791 (2017: £5,871) included in Other Liabilities.

Notes to the Financial Statements

Interest rate risk

The table below summarises the maturity dates at the year end for those financial assets that are exposed to interest rate risk.

	Maturing within:			
	1 year	1-5 years	More than 5 years	Total
	£	£	£	£
As at 31 December 2018				
Debt securities	**1,067,795**	**2,333,605**	**3,756,384**	**7,157,784**
Other assets including insurance receivables	**897,910**	**-**	**-**	**897,910**
Cash and cash equivalents	**5,234,871**	**-**	**-**	**5,234,871**
	7,200,576	**2,333,605**	**3,756,384**	**13,290,565**
As at 31 December 2017				
Debt securities	452,246	2,744,384	3,190,967	6,387,597
Other assets including insurance receivables	805,229	-	-	805,229
Cash and cash equivalents	4,170,621	-	-	4,170,621
	5,428,096	2,744,384	3,190,967	11,363,447

General business insurance liabilities and reinsurers' share of insurance liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest bearing. Furthermore, these liabilities and assets do not have maturity dates hence are not included in the above tables.

Credit and operational risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- reinsurers' share of insurance liabilities (excluding provision for unearned premiums) and amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance intermediaries and policyholders;
- corporate bond counterparty default; and
- amounts due from Ecclesiastical Insurance Office under the Joint Administration Agreement and Reinsurance Treaty.

The carrying amount of financial assets represents the Company's maximum exposure to credit risk.

The Company uses reinsurance to manage insurance risk, with all business accepted by the Company fully reinsured with Ecclesiastical Insurance Office plc, with the exception of terrorism cover which is reinsured through Pool Re. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. Ecclesiastical Insurance Office plc mitigates its own insurance risk through a comprehensive programme of reinsurance. Its Reinsurance Security Committee assesses, monitors and approves the creditworthiness of its reinsurers reviewing relevant credit ratings provided by the recognised credit rating agencies, as well as market information and other publicly available data. At the date of this report Ecclesiastical Insurance Office plc has credit ratings of A- (stable outlook) with Standard and Poors, and A (stable outlook) with AM Best.

The Company's credit risk policy details prescriptive methods for the collection of premiums and control of intermediary and policyholder debtor balances. The level and age of debtor balances are regularly assessed via monthly credit management reports and where possible creditors are monitored via credit reference agencies to minimise the risk of default. The credit reference agencies are used to rate agents, brokers and intermediaries on a scale of 0 to 100. A database of their ratings is maintained and updated daily. These ratings are adapted to internal credit ratings based on the Group's credit rating matrix, which rates the agency from very high risk to very low risk.

Notes to the Financial Statements

A breakdown of the Company's current amounts due from insurance debtors split by credit quality is shown below. All balances are shown gross of impairment losses.

	2018	2017
	£	£
Very low risk	**10,119**	10,180
Low risk	**32,796**	33,929
Moderate risk	**-**	-
High risk	-	-
Very high risk	-	-
Not rated	**1,075,990**	992,100
	1,118,905	1,036,209

The insurance debtors classified as not rated comprise personal policyholders and small corporate customers that do not have individual credit ratings.

The Company has no material concentration of credit risk in respect of amounts due from insurance intermediaries and policyholders due to the well-diversified spread of such debtors.

The current fixed interest portfolio consists of a range of fixed interest instruments including government securities, corporate loans and bonds, overseas bonds, preference shares and other interest bearing securities.

A breakdown of the Company's current cash balances exposure based on S&P or equivalent rating is presented below.

	2018	2017
	£	£
AAA	**-**	-
AA	**-**	-
A	**1,006,062**	935,217
BBB	**4,228,809**	3,235,404
Below BBB	**-**	-
	5,234,871	4,170,621

The Company has outsourced its day to day operations to Ecclesiastical Insurance Office plc. Inadequate oversight of daily operational administration, potentially resulting in inadequate record keeping, incorrect payments to customers or general poor underwriting and administrative performance, may lead to regulatory censure and customer dissatisfaction. This operational risk is managed by having dedicated resources within Ecclesiastical Insurance Office plc, with close monitoring of performance against agreed service levels and specific business continuity plans.

Liquidity risk

The Company is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts. Liquidity risk is the risk that funds may not be available to pay obligations when due. The Company has robust processes in place to manage liquidity risk and has adequate access to funding in case of exceptional need. Sources of funding include cash balances that are realisable on demand and other readily marketable assets.

Financial liabilities of the Company all mature within one year. An estimate of the timing of the net cash outflows resulting from insurance contracts is provided in note 22.

Currency risk

The Company operates in the UK and Eire. Its exposure to foreign exchange risk arises from recognised assets and liabilities denominated in euros.

The Company's exposure to foreign currency risk within the investment portfolios arises from purchased investments that are denominated in currencies other than sterling. The Company's primary currency risks are designated in euros and US dollars. The carrying amount of those net assets before the mitigating effect of forward currency transactions are summarised below:

	2018	2017
	£	£
US $	**4,539,923**	5,023,902
Euro	**1,635,321**	1,941,098

This exposure is reduced through the use of forward currency transactions. The underlying value of these instruments are \$2,342,700 (2017: \$2,570,700) and €694,300 (2017: €857,300)

Equity price risk

The Company is exposed to equity securities price risk from its investments which are classified at fair value through profit or loss.

Further details of the value of each type of investment that is exposed to equity price risk is included in note 18 to the financial statements.

Market risk sensitivity analysis

The sensitivity of profit to movements on market risk variables (comprising interest rate, currency and equity price risk), each considered in isolation, is shown in the following table:

		Potential increase/ (decrease) in profit after tax	
Variable	**Change in variable**	**2018**	2017
		£	£
Interest rate risk	-100 basis points	**317,483**	273,808
	+100 basis points	**(292,229)**	(267,558)
Currency risk	-10.0%	**(406,263)**	(324,496)
	+10.0%	**406,263**	324,496
Equity price risk	-10.0%	**(995,211)**	(1,155,569)
	+10.0%	**995,211**	1,155,569

Other equity reserves would not be affected by movements on market risk variables.

The following assumptions have been made in preparing the above sensitivity analysis:

- the value of fixed income investments will vary inversely with changes in interest rates;
- currency gains and losses will arise from a change in the value of sterling against all other currencies moving in concert; and
- change in profit is stated net of tax at the blended rate of 19.00% (2017: 19.25%).

Notes to the Financial Statements

Capital management

The Company is subject to insurance solvency regulations, and capital is managed and evaluated on the basis of regulatory capital. The Company's objectives when managing capital are:

- to comply with the regulator's capital requirements of the insurance market in which the Company operates; and
- to safeguard the Company's ability to continue to meet stakeholders' expectations.

The Company is required to comply with rules issued by the PRA and FCA. With effect from 1 January 2016 a Europe-wide regulatory capital regime (Solvency II) was adopted by the PRA. Both quarterly and annual quantitative returns are submitted to the PRA in addition to a qualitative report, the Regular Supervisory Report (RSR) which is expected to be a triennial requirement. A further report, the Solvency and Financial Condition Report (SFCR) is produced annually and must be published on the company website.

The Company has adopted the Solvency II standard formula approach to determine its solvency capital requirement (SCR). Economic capital is the Company's own internal view of the level of capital required, and this measure is an integral part of the Own Risk and Solvency Report (ORSA) which is a private, internal forward looking assessment of own risk, as required as part of the Solvency II regime. Risk appetite is set such that the target level of economic capital is always higher than the regulatory SCR.

5 Net insurance premium

	2018	2017
	£	£
Gross written premiums	9,854,513	9,724,985
Change in the gross provision for unearned premiums	(106,842)	(111,634)
Gross earned premiums	9,747,671	9,613,351
Outward reinsurance premiums	(9,854,513)	(9,724,985)
Change in the provision for unearned premiums, reinsurers' share	106,842	111,634
Reinsurers' share of earned premiums	(9,747,671)	(9,613,351)
Net written premiums	-	-
Net earned premiums	-	-

6 Commission income

	2018	2017
	£	£
Reinsurance commissions and profit commission	1,912,352	2,361,295
Other commissions	12,758	15,458
	1,925,110	2,376,753

During the year the Company received commission income totalling £12,779 (2017: £12,346) from its contracts with customers, all of which was recognised in respect of performance obligations satisifed at a point in time.

Notes to the Financial Statements

7 Net investment return

	2018	2017
Investments at fair value through profit or loss:	£	£
- dividend income	407,407	474,662
- interest income	128,336	108,408
Other investments:		
- cash and cash equivalents income	15,598	17,118
- other income received	4,462	5,300
Investment income	555,803	605,488
Fair value (losses)/gains on investments at fair value through profit or loss	(1,086,352)	1,318,857
Investment expenses	(117,278)	(118,347)
Net investment return	(647,827)	1,805,998

Included within cash and cash equivalents income are exchange gains of £4,598 (2017: £13,193 gains).

8 Claims and change in insurance liabilities and reinsurance recoveries

	2018	2017
	£	£
Gross claims paid	3,839,003	3,098,156
Gross change in the provision for claims	218,765	(1,629,546)
Claims and change in insurance liabilities	4,057,768	1,468,610
Reinsurers' share of claims paid	(3,676,919)	(2,843,885)
Reinsurers' share of change in the provision for claims	(350,257)	1,033,853
Reinsurance recoveries	(4,027,176)	(1,810,032)
Claims and change in insurance liabilities, net of reinsurance	30,592	(341,422)

9 Commissions and other acquisition costs

	2018	2017
	£	£
Commission paid	89,116	89,650

10 Other operating and administrative expenses

	2018	2017
	£	£
Directors' emoluments	79,309	68,094
Legal and professional fees	4,531	23,309
Pension scheme administration costs	-	-
Other expenses	59,130	94,489
	142,970	185,892

11 Operating profit

	2018	2017
Operating profit has been arrived at after (crediting)/charging:	£	£
- Net foreign exchange gains	(4,598)	(13,193)
- Directors' emoluments	79,309	68,094

Notes to the Financial Statements

12 Auditor's remuneration

	2018	2017
	£	£
Fees payable to the company's auditor for:		
- The audit of the Company's annual accounts	**45,000**	39,000
- Audit related assurance services	**-**	28,000

Audit related assurance services represents the audit of regulatory returns.

13 Employee information

As all management services are provided by Ecclesiastical Insurance Office plc under the terms of the Joint Administration Agreement, the Company has no employees.

14 Charitable grants

	2018	2017
	£	£
Charitable grants to Methodist funds and organisations	**1,500,000**	4,000,000
Charitable grants to other organisations	**5,000**	-
	1,505,000	4,000,000

15 Tax

	2018	2017
	£	£
UK corporation tax for the current financial year	**-**	-
Adjustment in respect of prior periods	**-**	-
Total current tax charge	**-**	-
Other deferred taxation charges	**(29,307)**	(18,731)
Impact of change in tax rate on deferred tax provision	**-**	-
Tax credit	**(29,307)**	(18,731)

Tax on the Company's profit before tax differs from the United Kingdom blended rate of corporation tax of 19.00% (2017: 19.25%) for the reasons set out in the following reconciliation:

	2018	2017
	£	£
(Loss)/profit before tax	**(490,395)**	248,631
Tax calculated at the UK rate of 19.00% (2017: 19.25%).	**(93,175)**	47,861
Factors affecting charge for the period:		
Income not taxable	**(94,025)**	(108,298)
Unrealised gains on investments crystallising	**3,448**	2,479
Excess charitable donations and expenses not deductible for tax purposes	**154,445**	39,227
Impact of change in deferred tax rate	**-**	-
Utilisation of brought forward tax losses	**-**	-
Tax credit	**(29,307)**	(18,731)

A change in the UK standard rate of corporation tax from 20% to 19% became effective from 1 April 2017. Where appropriate, current tax has been provided at a blended rate of 19.25% for the current year and a blended rate of 20.00% for the prior year. A further reduction in the rate of corporation tax to 17% will become effective from April 2020. Deferred tax has been provided at a rate of 17% (2017: 17%).

Notes to the Financial Statements

16 Appropriations

	2018	2017
Amounts recognised as distributions to equity holders in the period:	£	£
Dividends	188	188

This equates to a dividend of 1p per share (2017: 1p).

17 Pension asset

Previously the Company had exposure to a defined benefit pension scheme providing benefits based on final pensionable salary. On 1 July 2015 the process to wind up the defined benefit scheme commenced, the scheme's defined benefit obligations were fully discharged on 18 December 2015 and the scheme's final accounts were prepared to 30 June 2016.

	2018	2017
	£	£
As at 1 January	-	144,263
Share of distribution of surplus	-	(144,263)
As at 31 December	-	-

The wind-up of the scheme has been completed and the amount of surplus, net of tax has been finalised. The surplus, shared equally between the Company and the sponsoring employer, Ecclesiastical Insurance Office plc, was received in the third quarter of 2017.

There was no defined benefit obligation in the current or prior year. The movement in the fair value of scheme assets over the year is as follows:

	2018	2017
Scheme assets	£	£
As at 1 January	-	288,526
Surplus tranferred to sponsoring employer	-	(288,526)
As at 31 December	-	-
Asset ceiling		
As at 1 January	-	(144,263)
Share of distribution of surplus	-	144,263
As at 31 December	-	-

18 Financial investments

	2018	2017
Financial investments at fair value through profit or loss	£	£
Equity securities:		
- listed	12,286,561	14,310,451
Debt securities:		
- government bonds	7,014,600	6,237,747
- listed	143,184	149,850
Derivative financial instruments	956	22,838
Investments in group undertakings		
Shares in subsidiary undertakings	998	998
Total financial investments	19,446,299	20,721,884

Other than investments in group undertakings, all financial investments are current.

Notes to the Financial Statements

19 Other assets

	2018	2017
Receivables arising from insurance and reinsurance contracts:	£	£
- due from contract holders	**1,061,703**	989,366
- due from agents, brokers and intermediaries	**57,202**	46,843
Other receivables:		
- accrued interest	**52,733**	39,508
- other prepayments and accrued income	**44,927**	55,713
	1,216,565	1,131,430

Other assets are all current, and due to their short term nature, the above carrying amounts are a reasonable approximation of fair value.

The receivables arising from insurance and reinsurance contracts - due from agents, brokers and intermediaries comprises £57,202 (2017: £46,843) receivables net of £nil (2017: £nil) payables.

At 31 December 2018, £nil (2017: £nil) of receivables were past due and not impaired. No impairment charges have been recognised in the current or prior year.

20 Cash and cash equivalents

	2018	2017
	£	£
Cash at bank and in hand	**615,928**	524,211
Short term bank deposits	**4,618,943**	3,646,410
	5,234,871	4,170,621

The above carrying amounts are a reasonable approximation of fair value.

21 Called up share capital

	2018	2017
Issued, allotted and fully paid:	£	£
18,750 ordinary shares of £6, each fully paid	**112,500**	112,500

On winding up of the Company, shareholders are only entitled to receive the amount paid-up in cash, excluding any amount credited as paid-up resulting from the capitalisation of any reserves or profits of the Company. They have no further right to participate in the surplus assets of the Company.

The remaining surplus is to be distributed to or for the benefit of the Methodist Church, as defined and constituted under the Methodist Church Act 1976 or the Methodist Church in Ireland, as the company, in general meeting on the recommendation of the directors, shall determine.

Notes to the Financial Statements

22 Insurance liabilities and reinsurance assets

Claims outstanding

	2018	2017
Gross	£	£
Claims outstanding	16,543,077	16,320,071
Unearned premiums	5,813,891	5,705,038
Total gross insurance liabilities	22,356,968	22,025,109
Recoverable from reinsurers		
Claims outstanding	8,840,273	8,485,776
Unearned premiums	5,813,891	5,705,038
Total reinsurers' share of insurance liabilities	14,654,164	14,190,814
Net		
Claims outstanding	7,702,804	7,834,295
Unearned premiums	-	-
Total net insurance liabilities	7,702,804	7,834,295
Gross insurance liabilities		
Current	8,888,472	8,313,556
Non-current	13,468,496	13,711,553
	22,356,968	22,025,109
Reinsurance assets		
Current	8,888,472	8,313,556
Non-current	5,765,692	5,877,258
	14,654,164	14,190,814

General business insurance contracts

(i) *Reserving methodology*

Reserving for insurance claims is a complex process and the Company adopts recognised actuarial methods, and, where appropriate, other calculations and statistical analysis. Actuarial methods used include chain ladder and the Bornhuetter-Ferguson methods.

Chain ladder methods extrapolate paid amounts, incurred amounts (paid claims plus case estimates), the number of claims or average cost of claims, to ultimate claims based on the development of previous years. This method assumes that previous patterns are a reasonable guide to future developments. Where this assumption is felt to be unreasonable, adjustments are made or other methods such as Bornhuetter-Ferguson are used. The Bornhuetter-Ferguson method places more credibility on expected loss ratios for the most recent loss years. For smaller portfolios the materiality of the business and data available may also shape the methods used in reviewing reserve adequacy.

The selection of results for each accident year and for each portfolio depends on an assessment of the most appropriate method. Sometimes a combination of techniques is used.

Notes to the Financial Statements

(ii) *Calculation of uncertainty margins*

To reflect the uncertain nature of the outcome of the ultimate settlement cost of claims, and to ensure prudent provisions are made, an addition is made to the most likely outcome. The addition for prudence is assessed primarily by the Thomas Mack actuarial method, based on at least the 75th percentile confidence level for each portfolio. For smaller portfolios where the Thomas Mack method cannot be applied, provisions have been calculated at a level intended to be equally prudent. Where the standard methods cannot allow for changing circumstances then additional uncertainty margins are added and are typically expressed as a percentage of outstanding claims. This approach generally results in a favourable release of provisions in the current financial year, arising from the settlement of claims relating to previous financial years, as shown in part (viii) of the note.

(iii) *Calculation of special provisions for latent claims*

The Company adopts commonly used industry methods including those based on claims frequency and severity and benchmarking.

(iv) *Assumptions*

The Company follows a process of reviewing its reserves for outstanding claims on a quarterly basis. This involves an appraisal of each portfolio with respect to ultimate claims liability for the recent exposure period as well as for earlier periods, together with a review of the factors that have the most significant impact on the assumptions used to determine the reserving methodology. The work conducted on each portfolio is subject to an internal peer review and management sign-off process.

The most significant assumptions in determining general insurance reserves are the anticipated number and ultimate settlement cost of claims, and the extent to which reinsurers will share in the cost. Factors which influence decisions on assumptions include legal and judicial changes, significant weather events, other catastrophes, subsidence events, exceptional claims or substantial changes in claims experience and developments in older or latent claims. Significant factors influencing assumptions about reinsurance are terms of the reinsurance treaties, the anticipated time taken to settle a claim and the incidence of large individual and aggregated claims.

The technical provisions for claims have been estimated in accordance with the methods set out in the accounting policies note 1. Claims outstanding are affected by significant uncertainties in relation to the calculation of child abuse claims in children's homes. Such claims, relating to incidents over the last sixty years have emerged during the last fifteen years and are likely to take some years to resolve. The methods used to calculate these provisions are similar to other claims provisions and they include an estimate for claims incurred but not reported.

Of the total claims provision £3,354,743 (2017: £3,438,351) gross and £3,354,743 (2017: £3,438,351) net after assumed reinsurance recoveries relate to this matter.

The claims provision is particularly sensitive to the number of assumed abuse claims that are incurred but not reported. Some sensitivity exists over the calculation of the amount of such claims, however, there is less uncertainty over the amount compared with the number because of the experience of the cost of settled claims.

(v) *Change in assumptions*

There are no significant changes in assumptions.

(vi) *Sensitivity of results*

The ultimate amount of claims settlement is uncertain and the Company's aim is to reserve at a prudent level.

If final settlement of insurance claims reserved for at the year end turns out to be 10% higher or lower than that included in these financial statements, the following loss or profit will be realised:

	2018		2017	
	Gross	**Net**	Gross	Net
	£000	**£000**	£000	£000
Liability	**1,296**	**730**	1,322	743
Property	**319**	**-**	269	-

(vii) *Claims development tables*

The nature of insurance business is that claims may take a number of years to settle and before the final liability is known. The following table shows the development of the estimate of ultimate gross claims cost for these classes across all territories. Due to the reinsurance arrangements in place, no meaningful net claims development can be provided.

	2009	**2010**	**2011**	**2,012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Estimate of ultimate claims:											
At end of year	4,756	6,271	6,148	6,205	4,289	5,158	7,472	3,764	3,666	4,757	
One year later	3,905	5,526	4,653	4,914	3,208	4,064	6,667	2,953	3,689		
Two years later	3,708	4,811	4,604	4,518	3,466	3,596	5,858	2,488			
Three years later	3,692	4,832	3,764	3,967	2,807	3,547	5,539				
Four years later	3,578	4,687	3,724	3,706	3,029	3,413					
Five years later	3,615	4,547	3,730	3,648	2,758						
Six years later	3,682	4,708	3,687	3,679							
Seven years later	3,625	4,665	3,642								
Eight years later	3,563	4,709									
Nine years later	3,580										
Current estimate of ultimate claims	3,580	4,709	3,642	3,679	2,758	3,413	5,539	2,488	3,689	4,757	38,254
Cumulative payments to date	(3,462)	(4,566)	(3,485)	(3,555)	(2,448)	(3,218)	(4,004)	(2,056)	(2,217)	(1,681)	(30,692)
Outstanding liability	118	143	157	124	310	195	1,535	432	1,472	3,076	7,562

Liability in respect of earlier years	8,579
Internal claims handling reserve	402
Total gross liability included in insurance liabilities in the statement of financial position	16,543
Reinsurers' share of contract provisions	(8,840)
Total net liability	7,703

Notes to the Financial Statements

(viii) *Movements in insurance liabilities and reinsurance assets*

	Gross £	Reinsurance £	Net £
Claims outstanding			
At 1 January 2018	**16,320,071**	**(8,485,776)**	**7,834,295**
Exchange differences	**4,240**	**(4,240)**	**-**
Cash (paid)/received for prior year claims settled in the year	**(2,158,109)**	**1,996,026**	**(162,083)**
Change in prior year liabilities/reinsurance assets	**(697,706)**	**728,298**	**30,592**
Prior year liabilities/(reinsurance assets) at 31 December 2018	**13,468,496**	**(5,765,692)**	**7,702,804**
Current year claims/(recoveries)	**4,755,474**	**(4,755,474)**	**-**
Cash (paid)/received for current year claims settled in the year	**(1,680,893)**	**1,680,893**	**-**
Current year liabilities/(reinsurance assets) at 31 December 2018	**3,074,581**	**(3,074,581)**	**-**
At 31 December 2018	**16,543,077**	**(8,840,273)**	**7,702,804**
Provision for unearned premiums			
At 1 January 2018	**5,705,038**	**(5,705,038)**	**-**
Exchange differences	**2,011**	**(2,011)**	**-**
Movement in the year	**106,842**	**(106,842)**	**-**
At 31 December 2018	**5,813,891**	**(5,813,891)**	**-**
Claims outstanding			
At 1 January 2017	17,938,053	(9,508,065)	8,429,988
Exchange differences	11,564	(11,564)	-
Cash (paid)/received for prior year claims settled in the year	(2,040,045)	1,785,774	(254,271)
Change in prior year liabilities/reinsurance assets	(2,198,019)	1,856,597	(341,422)
Prior year liabilities/(reinsurance assets) at 31 December 2017	13,711,553	(5,877,258)	7,834,295
Current year claims/(recoveries)	3,666,629	(3,666,629)	-
Cash (paid)/received for current year claims settled in the year	(1,058,111)	1,058,111	-
Current year liabilities/(reinsurance assets) at 31 December 2017	2,608,518	(2,608,518)	-
At 31 December 2017	16,320,071	(8,485,776)	7,834,295
Provision for unearned premiums			
At 1 January 2017	5,586,365	(5,586,365)	-
Exchange differences	7,039	(7,039)	-
Movement in the year	111,634	(111,634)	-
At 31 December 2017	5,705,038	(5,705,038)	-

The net liability for unearned premium is £nil as the Company's provision is exactly matched by the corresponding reinsurers' share asset.

23 Deferred tax

An analysis and reconciliation of the movement of the key components of the net deferred tax liability during the current and prior reporting period is as follows:

	Financial assets at fair value through profit or loss	Capital allowances in excess of depreciation	Total
	£	£	£
At 1 January 2017	108,918	6,704	115,622
Credit to income	(18,731)	-	(18,731)
Charge to income resulting from reduction in tax rate	-	-	-
At 31 December 2017	90,187	6,704	96,891
Credit to income	**(29,307)**	**-**	**(29,307)**
At 31 December 2018	**60,880**	**6,704**	**67,584**

24 Other liabilities

	2018	2017
	£	£
Creditors arising out of reinsurance operations	**745,448**	244,402
Other creditors	**401,742**	390,485
Derivative liabilities	**5,791**	5,871
Amounts owed to related parties	**998**	998
Accruals	**77,782**	97,610
	1,231,761	739,366
Current	**1,230,763**	738,368
Non-current	**998**	998

The above carrying amounts are a reasonable approximation of fair value.

The creditors arising out of reinsurance operations comprises £2,798,798 (2017: £2,720,249) payables net of £2,053,339 (2017: £2,475,847) receivables.

25 Capital commitments

At 31 December 2018 there were £nil (2017: £nil) outstanding contracts for capital expenditure.

26 Related party transactions

The Company has a reinsurance treaty with Ecclesiastical Insurance Office plc whereby all business accepted by the Company is fully reinsured with Ecclesiastical with the exception of terrorism cover which is reinsured through Pool Re. Reinsurance premiums are accounted for at the time the business is written by the Company. The Company's and the reinsurers' share of claims are recognised at the time the claims are notified or earlier by way of a provision for claims incurred but not reported.

The Company operates a Joint Administration Agreement with Ecclesiastical Insurance Office plc under which all administration expenses are borne by Ecclesiastical.

The Company ceded premiums net of claims paid and commissions to the value of £6,014,314 (2017: £6,716,717) during the year to Ecclesiastical Insurance Office plc, which also bore expenses of the Company's business of £1,816,148 (2017: £1,862,801). The reinsurers' share of technical provisions due from Ecclesiastical Insurance Office plc as at 31 December 2018 is £14,596,963 (2017: £14,144,516) which consists of £5,756,689 (2017: £5,658,739) of unearned premium and £8,840,274 (2017: £8,485,777) of outstanding claims. At 31 December 2018 £730,198 was due from Ecclesiastical Insurance Office plc (2017: £265,993 due to Ecclesiastical Insurance Office plc). Information about key management personnel compensation is provided in note 10 to the financial statements.

Transactions and services with related parties are made on commercial terms. The Company has a letter of credit with Ecclesiastical Insurance Office plc for £2,000,000 (2017: £2,000,000) in respect of reinsurance amounts recoverable. Other amounts outstanding are unsecured, are not subject to guarantees, and will be settled in cash. No provisions have been made in respect of these balances.

27 Subsidiary undertakings

The Company's interest in subsidiary undertakings at 31 December 2018 is as follows:

	Share Capital	**Holding**
Methodist Insurance Services Limited	Ordinary shares	99.8%

The subsidiary is incorporated in England and Wales, is dormant, having not traded since incorporation, and is not material to the Company's accounts.

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