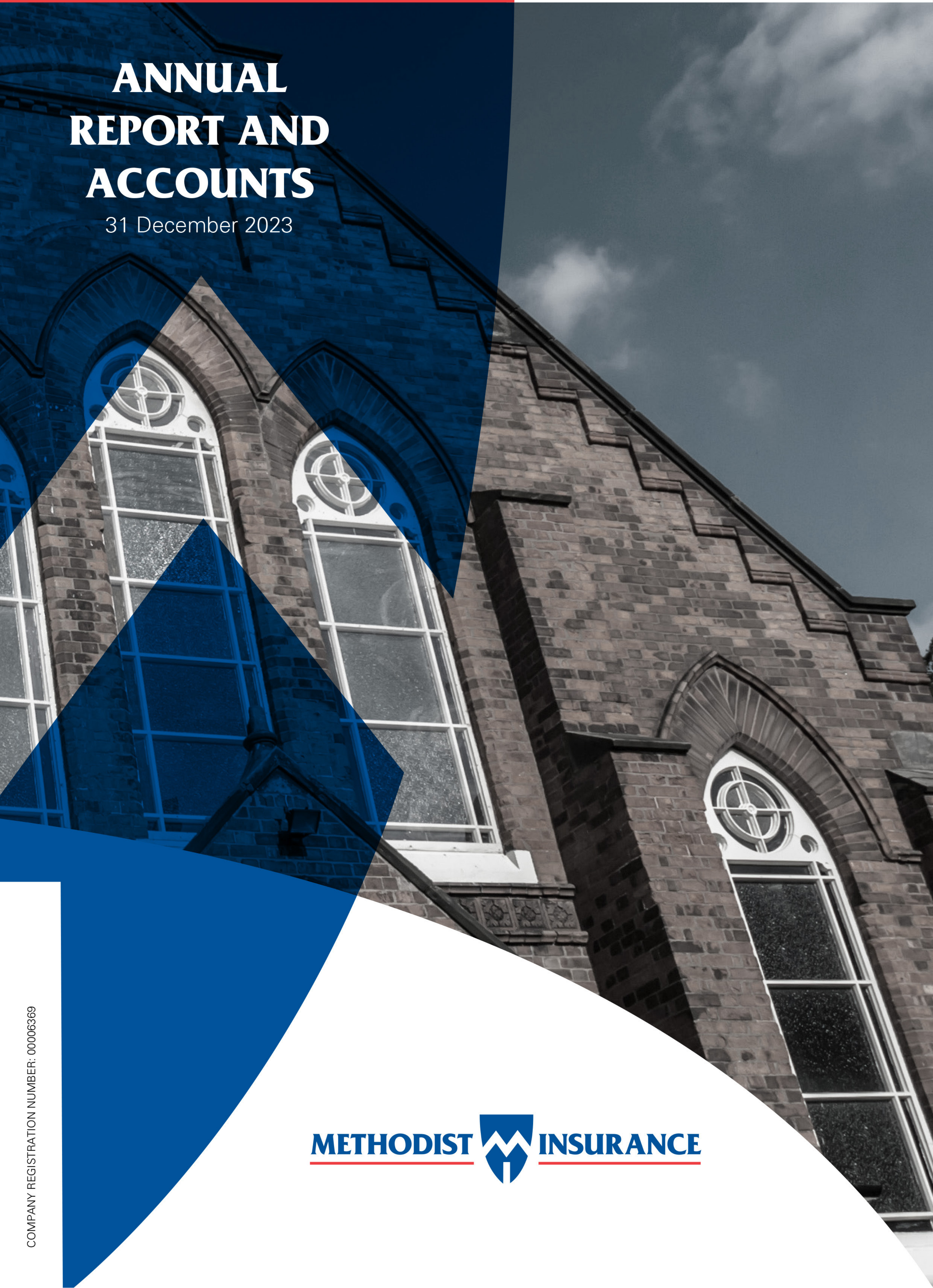

# ANNUAL REPORT AND ACCOUNTS

31 December 2023

METHODIST INSURANCE

COMPANY REGISTRATION NUMBER: 00006369

# Methodist Insurance PLC

## Annual Report and Financial Statements 31 December 2023

# Methodist Insurance PLC

## Officers and other Company Information

| | |
|---|---|
| **Directors and other company information** | J. Jefferson *Chair*<br>P. H. Davis BA<br>L.C. Wilkins *Senior Independent Director*<br>M. G. Angell ACII<br>S. M. Baldwin (appointed on 19th January 2023)<br>L. J. Barriball<br>G. R. Caughey FFA<br>D. A. Rees<br>I. S. Rutherford (appointed on 27th March 2024)<br>J. I. Reid (appointed on 27th March 2024<br>J. M. Coates ACII (Retired on 18th May 2023)<br>D. M. Crompton ACII (Retired on 18th May 2023) |
| **Company Secretary** | R. J. Hall FCIS |
| **Independent Auditors** | Ernst & Young LLP<br>The Paragon<br>Counterslip<br>Bristol<br>BS1 6BX<br>United Kingdom |
| **Registered Office** | Benefact House<br>2000 Pioneer Avenue<br>Gloucester Business Park<br>Brockworth<br>Gloucester<br>GL3 4AW<br>United Kingdom |
| **Company Registration Number** | 00006369 |

# Methodist Insurance PLC
# Directors' Biographies

## J. Jefferson, Chair

*Member of the Audit, Risk and Compliance Committee, Member of the Nominations Committee and Investment Committee, first appointed to the Board in 2021*

During a career in banking John has served as a Non Executive Director on a number of UK payment scheme company boards. In addition, he has been a senior executive and General Manager of the UK Faster Payments Service.

John is a member of the Methodist Church and has held a number of positions in local churches and circuits. Currently he is a Trustee and Chair of the Audit and Risk committee for the Trustees for Methodist Church Purposes.

## L. C. Wilkins Senior Independent Director

*Chair of the Nominations Committee, Member of the Business and Development Committee and Climate Change Champion, first appointed to the Board in 2021*

Louise is a Chartered Legal Executive and currently works for the Architectural Association School of Architecture as their Head of Legal and Company Secretary.  Previously Louise has been the Deputy General Counsel for Oxfam and spent eight years as Conference Officer for Legal and Constitutional Practice for the Methodist church. Louise has previously worked as a lawyer for the Baptist Union and started her career in family law. Louise is an active member of her local Methodist church and member of the church council.

## Revd. P. H. Davis BA

*Chair of the Business and Development Committee, Member of the Nominations Committee and Consumer Duty Champion, first appointed to the Board in 2006*

Paul retired after 40 years from the active work of a Methodist Minister in 2022. He most recently served as the Chair of the Lancashire District. Previously he served in five circuits in Lancashire and the Midlands. For many years as a Superintendent Minister. Within his ministry, he has always been interested in how Methodist property can best be used to fulfil the churches calling for Worship, Service, Learning and Evangelism. Paul is a director of Benefact Trust and is a member of the Grant Giving Committee. For the Connexional Methodist Church he sits on the board of Trustees for Methodist Church Purposes and the Connexional Manse Committee. He enjoys regular visits to the gym, cycling and walking.

## M. G. Angell ACII Chief Executive Officer

*Member of the Business and Development Committee, Investment Committee and Nominations Committee, first appointed to the Board in 2015*

Michael, a qualified Chartered Insurer, is CEO of Methodist Insurance plc and Benefact Group Church Relationship director. He has over 30 years of 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 President of the Gloucestershire Lawn Tennis Association. He is also actively involved in his local church.

# Methodist Insurance PLC
# Directors’ Biographies

## Revd. L. J. Barriball

*Member of the Audit, Risk and Compliance, first appointed to the board in 2005*

Linda is a Supernumerary Minister in the West Somerset Methodist Circuit. During 30 years of active ministry 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.

## S. M. Baldwin

*Member of the Business and Development Committee, first appointed to the Board in 2023*

Sue is a qualified Chartered Insurer and has over 30 years’ experience in Personal Lines Insurance having held senior roles at the innovative Direct Line Insurance and esure Insurance. She has over 7 years’ experience as a Non- Executive Directive and has achieved the qualification of Diploma in Company Direction with the Institute of directors. She has recently acquired a Masters in Business Administration from Coventry University.

Outside work Sue spends time hiking, yoga, indoor cycling, travelling, and volunteering with a local charity.

## G. R. Caughey

*Chair of the Audit, Risk and Compliance Committee and Member of the Investment Committee, first appointed to the Board in 2022*

Graeme has 20 year's career experience within the asset management industry on top of early experience training as an actuary with Aviva in the general insurance industry. More recently Graeme has experience as a professional pension trustee, which includes Chair of the Board and leading investment committees for the Church of Scotland Pension Schemes.

Away from work Graeme is a supporter of hockey and a keen adult learner of the bagpipes.

## D. A. Rees

*Chair of the Investment Committee and member of the Audit, Risk and Compliance 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 is a member of the Board and Audit and Risk Committee of CBF Financial Trustees Ltd, The London Pensions Fund Authority and the Investment Committee of Barclays UK Retirement Fund. Also, a member of the Board, Investment and Remunerations Committees of The Land Restoration Trust. She is also Church warden and manages her local church mission team.

## Revd. I. S. Rutherford

*First appointed to the Board in 2024*

Ian is a Methodist Presbyter and has been City Centre Minister at Methodist Central Hall Manchester since 2017. His first appointment was to Doncaster Methodist Circuit. He is Deputy Chair of the Connexional Mission Committee, serves on the Law and Polity Committee and is Convener of the Connexional Discipline, Pastoral and Appeal Committee.

Before entering the ordained ministry, Ian was a Commercial Solicitor for over 25 years. His final role was as the Legal Lead for Gateshead Council's landmark construction projects of Gateshead Millenium Bridge, Baltic - The Centre for Contemporary Art and The Glasshouse International Centre for Music. Ian's involvement in other projects included the building of five schools and an Energy-from-Waste Plant.

Ian's interests include architecture, art, rugby union, theatre, blues and roots music, Italian cuisine and Japanese culture.

## Revd. J. I. Reid

*First appointed to the Board in 2024*

Julia was ordained as a Methodist Minister in 2022 and is currently serving in the North Yorkshire Dales Circuit, with pastoral responsibility for 5 churches. She is a District Presbyteral rep to Conference in 2024.

Prior to taking up her call to ordained ministry, Julia held various roles at Church and Circuit level alongside raising her family and a successful career, initially in General Insurance and later in Accountancy/Business Consultancy.

Outside work, Julia very much enjoys spending time with her three adult children and getting plenty of outdoor fresh air and exercise by walking her dog.

The Company adopted IFRS 17 Insurance Contracts that became effective from 1 January 2023. Unless otherwise stated, comparatives figures for prior periods are restated on an IFRS 17 basis. Further details of the impact of the adoption of IFRS 17 are included in note 24 to the financial statements.

## A year of consolidation and reflection

Following the celebration of the company's 150th anniversary and the turbulent investment markets in 2022, there has been a little more consistency in 2023 and the company has returned to a profitable position. Inflation though, remained high through the year, and there were a number of significant weather events leading to 17 'large' claims compared to 6 in 2023. In addition, there was an increase in the number of attritional claims throughout the year.

Towards the end of the year the Board took some time out to reflect on current operations, future strategic options, our position in the market and the changes within church life in recent years. We will continue to keep strategy under review as we engage with our customers and stakeholders.

## Key Results

The Company returned to profit during 2023 recording a profit before tax and donations of £1,707,027 (2022: loss of £213,417). After tax and charitable donations, the profit was £1,111,009 (2022: loss of £218,667).

Gross written premium for the year were £10,801,105 (2022: £10,427,630) a growth of 3.6%, please refer to note 23 for further details.

Following a difficult 2022 and continued market turbulence into 2023, market conditions improved in the later part of the year with the company recording a net investment return £1,286,528 (2022: loss of £2,498,473).

In a year when investment markets remained unsettled, I would thank our investment managers at Sarasin and Partners and also our finance team who have ensured that we have successfully implemented IFRS 17, the new accountancy standard for insurance contracts.

## Capital Adequacy

The Company's capital position remains very strong with estimated and unaudited 'own funds' for Solvency II purposes of £21,370,000 (2022: £20,094,000). All prescribed capital requirements continue to be comfortably met.

## Charitable donations

The Company remains committed to supporting the Methodist Church and good causes through the donation of surplus profit, which is substantially through the Benefact Trust who are our principle Partner for charity work. We donated £500,000 (2022: £5,250) during the year and will seek to disperse the remainder of the 2023 undistributed profit of approximately £1m during the course of the current year.

## Company Operations

At the heart of the Company operation is the Joint Administration Agreement (JAA) with Ecclesiastical Insurance Office PLC (EIO). Performance against this longstanding agreement is monitored by the Board throughout the year and fully reviewed annually. In the light of regulatory and financial accounting changes the Board is conducting a review of the agreement which we intend to finalise during 2024.

Whilst the JAA means that staff undertaking work for the Company are employed by EIO, our continued success is down to the dedication and hard work of those teams in Manchester and Gloucester led by our CEO Michael Angell. Yet again this year our customers tell us that service provided has been excellent, with an extraordinary 99% satisfaction level amongst customers who responded to the satisfaction survey.

During the course of the year we have fully implemented the new Consumer Duty regulations, which ensure that we are treating all customers in a fair and consistent manner. We have also ensured compliance with other regulatory duties.

## Directors

Following the recruitment of Graeme Caughey in November 2022 and Sue Baldwin in January 2023, John Coates and David Crompton retired as directors at the AGM in May 2023 and the Board would like to thank them both for their service over a number of years.

To meet corporate governance requirements the Board have concluded the recruitment process for two further directors, to allow the Revd. Linda Barriball and the Revd. Paul Davis who have both served the company for many years to retire as directors during 2024. Revd. Ian Rutherford and Revd. Julia Reid both joined the board in March 2024.

John Jefferson

Chair

The directors present their strategic report for the year ended 31 December 2023.

The Company adopted IFRS 17 Insurance Contracts that became effective from 1 January 2023. Unless otherwise stated, comparatives figures for prior periods are restated on an IFRS 17 basis. Further details of the impact of the adoption of IFRS 17 are included in note 24 to the financial statements.

## 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 achieved by underwriting its cost of risk and providing risk management advice. The Company looks to maintain its strong capital position allowing it to continue on an ongoing basis to provide these services at a competitive price along with reinvesting in the Methodist community via the provision of donations.

## Business model

The principal activity of the Company is the transaction of property and liability insurance. The Company provides insurance and risk management advice for churches.

All insurance risks undertaken by the Company since 1998 are reinsured with EIO except eligible terrorism risks which are reinsured with a third party, Pool Re. It is anticipated that the activities of the Company will remain unchanged for the foreseeable future.

To 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 activities 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 outsourcing agreement with EIO 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 29 and in the Alternative Performance Measures on pages 71 to 73. Key performance indicators are included below.

The Company reported a profit before tax for 2023 of £1,207,027 (2022 restated: £218,667 loss). The increase on the prior year was materially driven by the net investment result of £1,286,528 (2022 restated: £2,498,473 loss) which reflects the improved market conditions towards the end of the year.

The Company reported an insurance service result of £737,241 (2022 restated: £2,032,722), the drop in performance compared to the prior year is largely due to the underwriting performance, in particular referencing the adverse large claims performance.

The Company uses a number of financial performance measures when managing and monitoring the performance of the general insurance businesses. These include gross written premium underwriting result and the investment return.

## Premium growth

Gross written premiums increased to £10,801,105 (2022 £10,427,630) representing an increase of 3.6% on the previous year. This increase can be attributed to the impact of the indexation levels which have experienced an increase throughout the year.

## Claims ratio

Our claims ratio (insurance service expenses to insurance revenue) of 55.35% (2022 restated: 26.75%) shows a 29-point increase on the previous year. The key driver for this variance is an increase in large claims in 2023, despite a reduction in weather events.

## Profit commission

The reinsurance treaty with EIO continues. The profit commission receivable for the year based on the sharing of the net underwriting result was £910,464 (2022: £2,174,901) with the key driver being adverse large claims performance, with 2022 being exceptionally strong. Profit commission is reported within the net expense from reinsurance contracts held.

## Investment return

The investment portfolio remains volatile following an unsteady 2022, with several turns throughout the year, however, at the end of 2023 an upturn in performance has led to the Company's net investment return ending on a profit of £1,286,528 (2022 restated: £2,498,473 loss.) The Company continues to monitor and review the investment strategy to ensure a balance between potential reward and future losses.

## Donations

The aim of the Company and the directors continues to be to support Methodist organisations. Using forecasts available at the end of the year, the Company paid out £500,000 (2022: £5,250) in relation to specific donations to causes during the year. The donation was made available for circuits, districts and other bodies with Methodist values at their centre.

## Retained profits

The factors outlined above have all had an influence on the results for the year, a profit before tax of £1,207,027 (2022 restated: loss before tax £218,667). After the impact of tax and dividends which are disclosed in note 13 and 14 respectively, the amount of retained earnings has increased by £1,110,821 (2022 restated: £218,855 decrease). The Company remains well capitalised as disclosed in note 4 to the Financial Statements.

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

## Regulatory, solvency and capital management

The Company is required to comply with the rules issued by the PRA and FCA, including Solvency II. Annual quantitative returns are submitted to the PRA. A further report, the Solvency and Financial Condition Report (SFCR) is produced annually and must be published on the Company's website.

The Company has adopted the Solvency II standard formula approach to determine its solvency capital requirement (SCR). The Company is required to maintain its regulatory capital above the higher of the SCR and MCR (Minimum Capital Requirement). For the 2023 accounts, the applicable measure is the MCR. 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 Assessment Report (ORSA) which is a private, internal forward looking assessment of own risk and capital requirement, 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 MCR.

As at 31 December 2023, the estimated and unaudited solvency ratio, which is defined as Solvency II Own Funds as a proportion of the SCR, was 370% (2022 year end: 415%).

## Principal risks and uncertainties

The principal risks and uncertainties, together with details of the financial risk management objectives and policies of the Company are disclosed in notes 3 and 4 to the financial statements.

Economic and geopolitical events present a risk to the Company, as a result of the impact this can have on the markets in which we operate. This can be seen through the volatility within the investment return over recent years, and by the impact of inflation on the core insurance business's revenue and expenses. We believe these risks are well understood and managed and do not expect this will have a long term adverse impact on the business.

Cyber risk continues to remain a constant and evolving threat with there being a general increase in both the types and volumes of cyber-attacks across the financial sector. Any event involving significant loss of such data could result in harm to the data subjects, operational disruption, impact on our service to customers, as well as regulatory fines and reputational damage. Through the administration agreement with EIO, a number of security measures are deployed to ensure protected system access. Security reviews and assessments are performed on an ongoing basis as well as ongoing maintenance and monitoring of systems and infrastructures in order to detect and prevent cyber security attacks. Employee awareness and vigilance is also highly important, and so an ongoing programme of training and awareness exercises is operated.

There continues to be a significant volume of regulatory change and as such, management of change in the regulatory environment remains a key area of focus to ensure that operations remain compliant with relevant legal, regulatory and consumer protection requirements and guidelines. Regular monitoring of regulatory developments is completed through the administration agreement in place and where required appropriate actions are taken to achieve compliance.

## Climate Change and environment

Climate change continues to present increasing levels of risk to our businesses and our customers. Recent extreme weather events continue to illustrate the increasing impact of climate change on our industry. The key risks identified for the Company are:

- physical risk of increasing severity and frequency of weather-related events leading to rising levels of property insurance claims. The impacts on the Company's insurance risks are primarily related to locations of the insured properties and will be informed by emerging modelling capabilities; and

- transition risk to the value of investment assets as the world moves to become a low carbon economy. The Company has adopted an Ethical, Environmental, Social and Governance investment policy which uses positive and negative screening as well as shareholder engagement that will enable mitigation of the impact of these risks.

The Board recognises the importance of understanding and managing these risks and has set up a strong governance framework to facilitate this process. The Board oversees the Company's overall position and key management positions have responsibilities for managing risks arising from climate change embedded within their roles.

## Non-financial and sustainability 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 of the Act, and has not prepared the non-financial and sustainability information statement in the strategic report as it has no employees.

## Section 172 Statement

The directors confirm that during 2023 and to the date of this Report, they have acted to promote the success of the Company for the benefit of its members as a whole and considered the matters as set out in section 172(1)(a) to (f) of the Companies Act 2006 (the Act). This section provides an overview of how the directors have had regard to those matters when performing their duties.

The Board has delegated day to day management of the Company to EIO under the terms of the JAA. Therefore, where matters may impact EIO a collaborative approach is taken to stakeholder engagement between the Board and EIO.

## Our Approach to the Long-Term Success of the Company

The Board of directors recognise that the long-term success of the Company is dependent on having regard to the interests of its stakeholders. This is achieved by engaging with stakeholders to understand their views and interests. Dialogue with stakeholders can help the Board to understand significant changes in the landscape, predict future developments and trends, and develop strategy that is aligned with stakeholder interests.

## Our Stakeholders

The Company's stakeholders are identified in the Company's Governance Framework and are at the core of all decision making. Key stakeholders include the Methodist community, customers, suppliers, regulators, shareholders, EIO, and the wider community and its environment. Examples of the way the Board has engaged with some of these stakeholder groups throughout the year are set out below.

## Stakeholder Engagement in Decision Making

The Board adopts a range of approaches to engage with stakeholders and recognises that the importance of a stakeholder group may differ depending on the matter to be considered. Given the nature of the business, the Board sometimes engages directly with stakeholders and also understands that it may be more appropriate for engagement to be undertaken at an operational level.

The directors receive training on their duties as directors as part of their induction, and are regularly reminded of their statutory duties, which includes all aspects of section 172 of the Act. In addition, key paper writers have received board paper writing training, and are encouraged to ensure that a stakeholder analysis is included within the papers. This facilitates robust strategic discussions which considers the long-term success of the Company in addition to any direct and or indirect implications for stakeholders.

The Board considers a variety of information to understand the impact of the Company's operations and the interests and views of key stakeholders. A one-year rolling plan of business for discussion is agreed annually to ensure that the Board is focused on the right issues at the right time and sufficient time is allowed for appropriate consideration and debate. Information is provided to directors in papers in advance of each meeting. In addition, EIO employees working on behalf of the Company are invited to attend meetings to provide insight into key matters and developments. At each Board meeting, the directors discuss strategic and business matters, financial, operational and governance issues and other relevant issues that arise. Because of this, the Board has an appreciation of engagement with stakeholders and other relevant matters, which enables the directors to comply with their legal duties.

Below is an example of a principal decision taken by the Board during the year and how it has had regard to the interests of, and impact on a selection of its stakeholders.

## Principal Decision of the Board

Throughout 2023, the Board (via its Business and Development Committee (B&D)) received regular updates from the EIO Consumer Duty Steering Committee (which consisted of several subject matter experts) in consultation with the Board's Consumer Duty Champion (Paul Davis) on the Company's preparations to meet the Company's regulatory obligations.

The Board approved the "Go Live Assurance Summary" via written resolution upon the recommendation of Paul Davis.

Noting the importance of Customer Duty, the Board and its Committees (specifically the B&D) continue to receive regular updates. Additionally, Paul Davis continues to meet with management to challenge how it is embedding the Consumer Duty's requirements and ensuring continued focus upon consumer outcomes.

| **Our key stakeholders** | **Methods of engagement and outcomes** |
|---|---|
| Shareholders and the Methodist Community | |
| The interests of the Company and its shareholders are aligned with the common purpose of benefitting the Methodist community.<br><br>The Board is accountable to its shareholders for the long-term success of the Company. | There are open channels of communication between the Board and the Company's shareholders to facilitate the exchange of information and views or opinions. During 2023, the directors invited Company shareholders to engage through formal and informal means, including its Annual General Meeting (AGM) and the Methodist Conference.<br><br>Throughout the year, there continued to be two ordained Ministers on the Board (Paul Davis and Linda Barriball), in accordance with the Company's Articles of Association. Whilst Linda Barriball intends to step down from the Board following the AGM, Paul Davis will continue as a director until the end of 2024. Mindful of this change, during 2023, the Board (via the Nominations Committee) conducted a robust, transparent, and fair recruitment process with a view to recruiting an additional two Non-Executive Directors, with a connection to the Methodist church. The directors are pleased to report the appointment of Ian Rutherford and Julia Reid which took effect from 27 March 2024.<br><br>Additionally, a number of the directors are members, or on the community roll of the Methodist Church. This provides a further mechanism for the views of the Methodist community to be communicated to the Board and considered as part of its decision making. |

| Customers | |
|---|---|
| The Company's customers are fundamental to the long-term success of the Company. The Board considers the impact of any actions or decisions on the Company's customers (both direct and indirect customers) before proceeding with the same. | During 2023, the Board received regular updates and actively challenged management on the delivery of the customer strategy. All Board members received a copy of the Company's monthly Business Report, specifically noting customer satisfaction scores and any complaints handling data. More detailed annual customer satisfaction scores were also considered by the Board. These scores informed certain business proposals presented to the Board for review during the year.<br><br>The directors also actively engaged with the Company's customer base at the Annual Methodist Conference. |
| **EIO** | |
| Day to day management services is provided by EIO on the Company's behalf under the terms of the JAA. The operational success of the Company depends on the continuing satisfactory implementation of the terms of the JAA. | EIO is accountable to the Board for all services undertaken in accordance with the JAA. The Board annually reviews the provision of services undertaken by EIO on the Company's behalf, providing rigorous challenge and oversight of management.<br><br>2023 saw the contractual relationship between EIO and the Company under the JAA reach its 25th anniversary. Engagement between the Company and EIO continues to be positive.<br><br>The Company's Chief Executive Officer (CEO), Michael Angell, is an employee of EIO. Various members of EIO's management team and subject matter experts attended Board meetings throughout the year. Mark Hews, EIO Group CEO, provided an annual update on EIO's strategic position to the Board.<br><br>Whilst the Company itself does not have any employees, there are a number of people employed by EIO who conduct business on the Company's behalf pursuant to the JAA (the Workforce). The Board recognises that the individuals in the Workforce are its most valuable asset, given their specialist knowledge and propensity to go above and beyond. The Board also understands the importance of engaging with the Workforce on a regular basis to ensure that they feel valued and motivated. Engagement took place through a range of formal and informal channels during the year. In November, the directors invited members of the Workforce to attend an informal lunch with the directors where they were able to meet and discuss a range of topics with the directors. |

| Other Suppliers | |
|---|---|
| The Company's suppliers play an important role in ensuring a reliable service is delivered to the Company's customers. | As a consequence of the importance that the Board places upon the role of suppliers, the Board maintains a Procurement, Purchasing and Outsourcing Policy. Regular updates on performance against the policies are provided to the ARCC and reported to the Board as required.<br><br>The Board is also aware of its regulatory responsibility under SS2/21 Outsourcing and Third-Party Risk. EIO have a robust Supplier Management Framework in place and management are expected to manage Supplier Contracts in accordance with this. The Board does not generally directly interact with its suppliers, however they receive reports and updates from management allowing them to oversee associated relationships and to keep up to date on developments. |
| Community and Environment | |
| The Board understands the risks and opportunities of environmental, social and governance (ESG) issues, including the impact of climate change upon the environment, our communities and customers and wider stakeholders.<br><br>The Board understands that having an environmentally positive impact is important to the Company's sustainability. | The Board (via the ARCC) regularly reviews the risks associated with climate change. Loiuse Wilkins is the designated Board climate change champion and whilst not a member of the ARCC, regularly attends the ARCC meetings to provide relevant climate related updates to the Committee.<br><br>The Company's Investment Policy sets out the investment strategy, including its stance on Environmental, Social and Governance (ESG) matters pertinent to its investment portfolio. During the year, and upon the recommendation of the Investment Committee (IC) , the Board approved the updated Investment Policy. This Policy is considered regularly by the IC and reviewed and approved annually by the Board. Additionally, during 2023 the Board (via its Investment Committee) received regular reports from the Company's investment managers on the ESG rating of the companies within its investment portfolio to ensure these were aligned with the Company's Investment Policy.<br><br>The Company's long term aim is to continue it's charitable giving for the benefit of the Methodist community. Given the Company's association with the Methodist church, the Company aims to follow the current policy of the Methodist church with regard to ethical or socially responsible investment. |
| Regulators | |
| The Company is regulated by the Prudential Regulation Authority (the PRA) and the Financial Conduct Authority (the FCA). | The Board (via its ARCC) receives regular updates on legal, regulatory and compliance matters, including the Company's regulatory interactions. |

| | |
|---|---|
| | Upon the recommendation of the ARCC, the Board also approved the Annual Solvency Financial Condition Report (SFCR).<br><br>During the year, the Board (via its B&D) received an update on FCA's Policy Statement: PS21/5 General insurance pricing practices market study Feedback to CP20/19 and final rules. In response to this, a pricing review was conducted, the results of which were shared with the Board in December 2023 and will be implemented in 2024. |

By order of the board
John Jefferson

Chair

14th May 2024

The directors present their annual report and financial statements for the year ended 31 December 2023.

## Future prospects

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

## Results and Dividend

The directors recommend the payment of dividends on the amounts paid up on the Company's ordinary shares, for the year ended 31 December 2023, absorbing the sum of £188 (2022: £188). This equates to a dividend of 1p per share (2022: 1p per share).

## Going concern

The Company itself maintains a strong balance sheet position and good capital coverage, and it has no external loans. The Company reinsures all of its current business, except for terrorism cover, with EIO, which also provides administrative services within a profit share arrangement. Therefore, most of its insurance risks are ultimately borne by EIO, which is well capitalised and has ratings of A2 and A with Moodys and AM Best respectively. The Company's assets excluding reinsurers share of contract provisions are also greater than insurance contract liabilities. The directors have considered the impact of the economy, inflation and interest rates on the Company, and whilst it has impacted the investment returns, the solvency coverage and capital position has remained strong. The directors also consider they have provided adequately for risks not reinsured with EIO and, as such, after considering the stresses and any mitigating actions as well as the financial and operating capability of EIO, the directors believe the Company is well placed to manage such risks to 31 December 2025. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

## Political Donations

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

## Financial Instruments

Information about the use of financial instruments by the Company is given in note 4 to the financial statements.

## Board of Directors

The directors of the Company at the date of this report are stated on page 4.

As set out in the Annual General Meeting (AGM) Notice, Julia Reid and Iain Rutherford were appointed as directors on 27 March 2024, therefore in accordance with the Company's Articles of Association, they will retire at the forthcoming AGM on 20 June 2024, and being eligible, offer themselves for re-election at the forthcoming AGM.

Additionally, in accordance with the Company's Articles of Association, Louise Wilkins, John Jefferson and Paul Davis retire by rotation at the forthcoming AGM, and being eligible, offer themselves for re-election.

Linda Barriball, being eligible for re-election in accordance with the Company's Articles of Association will not offer herself for re-election and intends to step down at the forthcoming AGM.

## Qualifying third-party provisions

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.

## Statement of Directors' responsibilities

The directors are responsible for preparing 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 UK- adopted International Accounting Standards (IAS). 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 in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;

- make judgements and accounting estimates that are reasonable and prudent;

- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

- provide additional disclosures when compliance with the specific requirements in IAS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the financial position and financial performance;

- state whether IAS have been followed,

- subject to any material departures disclosed and explained in the financial statements; and

- prepare the financial statements on the going concern basis unless it is appropriate to presume that the company will not continue in business.

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.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report and directors' report, that comply with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

## Climate Change and environment

Information on the approach to climate change and the environment is provided on page 11.

## 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 Ernst & Young LLP be re-appointed as auditor of the company will be put to the annual general meeting.

Approved by the Board of directors and signed on its behalf by:

John Jefferson
Chair
14th May 2024

# Independent auditors' report to the members of The Methodist Insurance PLC

## Opinion

We have audited the financial statements of Methodist Insurance PLC (the "Company") for the year ended 31 December 2023 which comprise the Statement of Profit or Loss, the Statement of Financial Position, the Statement of Changes in Equity and Statement of Cash Flows and the related notes 1 to 24, including material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- confirming our understanding of management's going concern assessment process and obtaining management's assessment which covers the period through to 31 December 2025;
- assessing the accuracy of management's analysis by testing the reasonableness of the inputs to the cash flow model and the clerical accuracy of the model used;
- evaluating the liquidity and solvency position of the Company by reviewing base case liquidity and solvency projections;
- obtaining and reviewing the latest Board approved ORSA, assessed whether the stress testing included in the ORSA was reasonable and considered the solvency position under each stress scenario;
- evaluating management's forecast analysis to understand how severe the downside scenarios would to be to result in the elimination of solvency and liquidity headroom and concluded it to be remote;
- assessing the plausibility of available management actions to mitigate the impact of the key risks by comparing them to our understanding of the Company;

- performing enquiries of management and those charged with governance to identify risks or events that may impact the Company's ability to continue as a going concern. We also reviewed management's assessment approved by the Board and minutes of meetings of the Board and its committees;

- obtaining Ecclesiastical Insurance (EIO) Group management's going concern assessment from the EIO Group Financial Controller as the Company's ability to continue its operations are fully dependent on EIO under the joint administration agreement; and

- assessing the appropriateness of the going concern disclosures by comparing the consistency with management's assessment and for compliance with the relevant reporting requirements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period to 31 December 2025.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

## Overview of our audit approach

| | |
|---|---|
| Key audit matters | • Valuation of the Liabilities for Incurred Claims (pre-1998)<br>• Estimates involved in the calculation of profit commission within net expenses from reinsurance contracts held<br>• Financial Statements and Disclosures including selection and application of Accounting Policies on Transition to IFRS 17 from IFRS 4 |
| Materiality | • Overall materiality of £410k which represents 2% of net assets. |

## An overview of the scope of our audit

**Tailoring the scope**
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, the potential impact of climate change and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

**Climate change**

Stakeholders are increasingly interested in how climate change will impact Methodist Insurance PLC. The company has determined that the most significant future impacts from climate change on its operations will be from physical and transitional risks. These are explained on page 11 in the principal risks and uncertainties section within the Strategic Report, which form part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

In planning and performing our audit we assessed the potential impacts of climate change on the company's business and any consequential material impact on its financial statements.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition, and the resulting conclusion that there was no material impact from climate change and the adequacy of the company's disclosures on page 33 of the financial statements under the Basis of preparation. As part of this evaluation, we performed our own risk assessment to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

We also challenged the Directors' considerations of climate change risks in their assessment of going concern and associated disclosures.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included 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. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

| **Risk** | **Our response to the risk** | **Key observations communicated to the Audit Committee** |
|---|---|---|
| **Valuation of the Liabilities for Incurred Claims (pre-1998) (2023: £3,769k, 2022: £4,260k)**<br><br>*Refer to the Accounting policies (page 33; and Note 19 (page 61) of the Financial Statements*<br><br>The valuation of the liabilities for incurred claims reserves (Pre-1998) is highly judgemental because it requires a number of assumptions to be made with the estimation uncertainty covering both frequency and severity of claims. Under IFRS17 the Liability for Incurred Claims comprises the nominal reserves (incorporating the Allowance for Limited Historical Experience), discounting and a risk adjustment for non-financial risk. Our risk assessment focusses on the risk that the LIC has been determined through inappropriate modelling, data or assumptions. | We performed walkthroughs to understand the claims liability valuation processes and identified key controls in place;<br><br>In conjunction with our actuarial specialists, we assessed the methodology, key assumptions and judgements used by Management, including the key sensitivities and uncertainties in the valuation of the Liabilities for Incurred Claims (pre-1998) and application of discounting and risk adjustments; In particular we:<br><br>- Assessed the Company's methodology and verified the key outputs from the model.<br><br>- Reviewed key metrics from the inputs to, and outputs from the valuation models.<br><br>- Checked assumptions for reasonableness and compared against the recent historical claim experience and against our market benchmarks. | We concluded that the methodology used by management in the valuation of Liabilities for Incurred Claims reserves (pre-1998) was in line with market practice and that it is appropriate for the size and complexity of the underlying risk exposure.<br><br>We determined that the actuarial assumptions used by management in the valuation of the Liabilities for Incurred Claims (pre-1998) are reasonable based on the analysis of experience to date, industry practice and the financial reporting and regulatory requirements. |

| | | |
|---|---|---|
| | - Performed sensitivity testing to the main assumptions to determine the sensitivity of the claims reserves to changes in these parameters.<br><br>- Assessed management’s determination of the discount rate and risk adjustment and considered the appropriateness of these based on our understanding of the business. In respect of discounting, we also considered the appropriateness of management’s run off patterns used to calculate the discounting impact.<br><br>We read Management’s commentary on the change in the reserves for the National Children’s Homes (NCH) and non-NCH portfolios, since 31 December 2022;<br><br>The reserving process is inherently reliant on the quality of the data fed into the process. As a result, we tested the completeness and accuracy of incurred claims data used;<br><br>We analysed claim payments patterns for pre-1998 policies versus historical trends to assess the reasonableness of the paid claims that inform the year end reserves;<br><br>We agreed a sample of pre-1998 PSA Liability for incurred claims - notified to the underlying claims files;<br><br>We read all current year reserving reports and presentations to management detailing the actuarial reserve reviews; and<br><br>We read all legal correspondence and Board minutes and considered any impact on insurance contract liabilities. | |
| **Estimates involved in the calculation of profit commission within net expenses from reinsurance contracts held (2023: £910k, 2022: £2,175k)**<br><br>*Refer to the Accounting policies (page 33); and Note 19 (page 61) of the Financial Statements* | We reviewed the profit share agreement in place to obtain an understanding as to how it should operate;<br><br>We verified the mathematical accuracy of the calculation performed by management and tied back to the methodology set out in the agreement; | We determined that the profit commission is calculated correctly in line with the terms agreed with EIO and reported accurately in the Financial Statements. |

| | | |
|---|---|---|
| Profit share is split 50:50 between EIO and the Company. The calculation of profit commission is dependent on the net underwriting result which can be manipulated through estimates and judgments specifically relating to the calculation of post 1998 Liability for Incurred Claims reserves.<br><br>This balance is subject to manipulation as MIC have an incentive to reduce the post 1998 LIC to improve underwriting result which increases profit commission whereas EIO have an incentive to increase post 1998 LIC to reduce underwriting result and profit commission payable. | We obtained a confirmation from EIO for the amount of profit commission for the year.<br><br>We read the Board minutes where the final commission figure is agreed.<br><br>We obtained proof of final payment of the commission income made post year end.<br><br>In conjunction with our actuarial specialists, we performed testing on the LIC calculation for accident years 1998 and post; in particular we:<br><br>- Gained an understanding of how management determine the nominal reserves, including the Allowance for Limited Historical Experience, and the source and application of discounting and risk adjustment.<br><br>- Assessed the methodology for reasonableness and identified the key assumptions in the analysis. We audited the reasonableness of those key assumptions by comparing against the Company's recent historical claim experience and against our market benchmarks.<br><br>- Assessed and challenged MIC's approach to allowing for the inflationary environments in their reserves.<br><br>- Assessed management's determination of the discount rate and Risk Adjustment and consider the appropriateness of these based on our understanding of the business and the wider market. In respect of discounting, we considered the appropriateness of management's run off patterns used to calculate the discounting impact.<br><br>- Tested the calculation of reinsurance recoveries on LIC and checked that this calculation was reasonable given the EIO reinsurance program in place.<br><br>- Performed independent claims reprojections of the post-1998 | |

| | | |
|---|---|---|
| | property and liability excluding PSA classes of business<br><br>- Performed testing to validate the data used in the actuarial projections is complete and accurate | |
| **Financial Statements and Disclosures including selection and application of Accounting Policies on Transition to IFRS 17 from IFRS 4**<br><br>*Refer to the IFRS 17 transition disclosures included in Accounting policies (page 37) and Note 24 of the Financial Statements (pages 74 to 77)*<br><br>The transition to IFRS 17, the new insurance accounting standard, effective for annual reporting periods beginning on or after 1 January 2023, has resulted in significant change to the reporting processes and to the financial statements. This transition, which includes a number of key judgements, has required substantial focus during our audit, however these areas are not considered to be significant risks. We have focused on a number of transition areas, with the following being key areas of focus: i) Methodology - The risk of management's methodology being out of line with the standard. ii) Financial statement disclosures – The risk of disclosures in relation to the application of IFRS 17 being insufficient or inappropriate. | To obtain sufficient audit evidence to conclude on the appropriateness of the initial application of the new IFRS 17 accounting standard, we have performed the following procedures:<br><br>- Obtained and challenged management's methodology papers for compliance with the IFRS 17 accounting standard and subsequently assessed management's implementation of their methodology.<br><br>- Tested management's IFRS 17 disclosures in the financial statements in relation to transition and restated comparative periods.<br><br>- Tested the IFRS 4 to IFRS 17 bridging of equity and profit before tax. | Through the procedures performed, we have determined that management have appropriately implemented the IFRS 17 insurance accounting standard within their financial reporting and this is reflected within the financial statements in all material respects. |

## Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

**Materiality**
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £410k (2022: £360k), which is 2% (2022: 2%) of net assets. We believe that net assets provides us with both the regulatory strength of the entity and the ability to continue to make the grants and meet the entity's charitable objectives.

**Performance materiality**
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2022: 75%) of our planning materiality, namely £307k (2022: £270k). We have set performance materiality at this percentage due to corrected and uncorrected misstatements being below 25% of performance materiality in the previous year and the expectation that corrected and uncorrected misstatements will be below 25% of performance materiality in the current year.

**Reporting threshold**
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £20k (2022: £18k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

## Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise toa material misstatement in the financial statements themselves or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

## Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

## Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, 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

## Responsibilities of directors

As explained more fully in the directors’ responsibilities statement set out on page 18, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## Auditor’s responsibilities for the audit of the financial statements

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 error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### *Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud*

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are direct laws and regulations related to elements of the Companies Act 2006 and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority (‘PRA’) and the Financial Conduct Authority (‘FCA’).
- We understood how Methodist Insurance PLC is complying with those frameworks by making enquiry of those charged with governance and senior management for their awareness of any non-compliance with laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees and inquiring about the Company’s methods of enforcing and monitoring compliance with such policies.
- We assessed the susceptibility of the company’s financial statements to material misstatement, including how fraud might occur by considering the controls that the Company has established to address risks identified by the Company, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, performance targets, economic or external pressures and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk,

including the procedures over the actuarial assumptions and profit commission noted under the key audit matters section above. With regard to revenue recognition fraud risk we agreed all of the insurance revenue received during the year to bank statements and additional procedures included testing a sample of manual journals. We have also agreed the monthly journal upload of investment income into the general ledger to external investment managers reports. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiry of senior management and the Audit Committee for their awareness of any non-compliance with laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the Company's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with the FCA and PRA and reviewing minutes of the Board and its committees, the complaints log and the quarterly Internal Audit updates presented to the Audit Committee.

- The Company operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

### Other matters we are required to address

- Following the recommendation from the audit committee we were appointed by the company on 14 November 2019 to audit the financial statements for the year ending 31 December 2019 and subsequent financial periods.

- The period of total uninterrupted engagement including previous renewals and reappointments is 5 years, covering the years ending 31 December 2019 to 31 December 2023.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.

- The audit opinion is consistent with the additional report to the audit committee.

### Use of our report

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.

DocuSigned by:
Ernst & Young LLP
BA098CDE68684E0...

Andy Blackmore (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol
Date: 18 May 2024

# Methodist Insurance PLC
## Statement of Profit or Loss

For the year ended 31 December 2023

| | Notes | 2023 | *Restated** 2022 |
|---|---|---|---|
| | | **£** | £ |
| Insurance revenue | 5 | **10,624,295** | 9,924,236 |
| Insurance service expenses | 6 | **(5,880,977)** | (2,654,789) |
| Insurance service result before reinsurance contracts held | | **4,743,317** | 7,269,447 |
| Net expense from reinsurance contracts held | 19 | **(4,006,076)** | (5,236,725) |
| **Insurance service result** | | **737,241** | 2,032,722 |
| Insurance finance (expense)/income for insurance contracts issued | 7 | **(357,000)** | 1,090,000 |
| Reinsurance finance income/(expense) for reinsurance contracts held | 7 | **254,000** | (612,000) |
| Net investment result | 8 | **1,286,528** | (2,498,473) |
| Other operating expenses | 9 | **(713,743)** | (230,916) |
| **Profit/(loss) before tax** | | **1,207,027** | (218,667) |
| Tax Expense | 13 | **(96,018)** | - |
| **Profit/(loss) for the year from continuing operations** | | **1,111,009** | (218,667) |

*The comparative financial statements have been restated as detailed in note 24.

All the amounts above are in respect of continuing operations.

The Company had no recognised income and expense during the current financial year and the preceding financial year other than that included in the statement of profit and loss. Accordingly, no separate statement of comprehensive income has been presented.

| At 31 December 2023 | | | *Restated** | *Restated** |
|---|---|---|---|---|
| | | **31 December** | 31 December | 1 January |
| | Notes | **2023** | 2022 | 2022 |
| | | **£** | £ | £ |
| **Assets** | | | | |
| Cash and cash equivalents | 17 | **4,400,585** | 6,049,277 | 2,654,314 |
| Financial investments | 15 | **20,360,874** | 17,004,535 | 21,491,581 |
| Current tax recoverable | | **-** | 9,646 | 9,646 |
| Reinsurance contract assets | 19 | **12,941,999** | 11,427,504 | 12,389,622 |
| Other receivables | 16 | **119,481** | 114,818 | 84,008 |
| **Total assets** | | **37,822,939** | **34,605,780** | 36,629,171 |
| **Liabilities** | | | | |
| Current tax liabilities | | **96,008** | - | - |
| Other payables | 20 | **648,423** | 739,860 | 515,216 |
| Insurance contract liabilities | 19 | **16,576,663** | 14,474,897 | 16,504,077 |
| **Total liabilities** | | **17,321,094** | **15,214,757** | **17,019,293** |
| **Net Assets** | | **20,501,845** | **19,391,024** | **19,609,878** |
| **Equity** | | | | |
| Share Capital | 18 | **112,500** | 112,500 | 112,500 |
| Retained Earnings | | **20,389,345** | 19,278,524 | 19,497,378 |
| **Total Equity** | | **20,501,845** | 19,391,024 | 19,609,878 |

*The comparative financial statements have been restated as detailed in note 24.

The financial statements of Methodist Insurance Company PLC, company registration number 00006369, on pages 29 to 77, were approved and authorised for issue by the board of directors on 14th May 2024 and signed on its behalf by:

John Jefferson Chair

Michael Angell Director

# Methodist Insurance PLC
# Statement of Changes in Equity

For the year ended 31 December 2023

| | Note | Share Capital | Retained Earnings | Total |
|---|---|---|---|---|
| | | £ | £ | £ |
| **Balance at 31 December 2021 (as reported)** | 24 | **112,500** | **19,192,192** | **19,304,692** |
| Adjustment on initial application of IFRS 17 | | **-** | 305,186 | **305,186** |
| **Balance 1 January 2022 (as restated*)** | 24 | **112,500** | **19,497,378** | **19,609,878** |
| Loss for the period | | | (218,667) | **(218,667)** |
| Dividends | | | (188) | **(188)** |
| **Balance at 31 December 2022 (as restated*)** | 24 | **112,500** | **19,278,711** | **19,391,024** |
| Profit for the period | | **-** | 1,111,009 | **1,111,009** |
| Dividends | | | (188) | **(188)** |
| **Balance at 31 December 2023** | | **112,500** | **20,389,720** | **20,501,845** |

*The comparative financial statements have been restated as detailed in note 24.

## Methodist Insurance PLC
## Statement of Cash Flows

For the year ended 31 December 2023

| | 2023 | *Restated** 2022 |
|---|---|---|
| | £ | £ |
| **Profit/(loss) for the year before tax** | **1,207,027** | (218,667) |
| *Adjustments for:* | | |
| Net fair value (gains)/losses on financial investments | **(797,384)** | 2,859,961 |
| Income from investments | **(489,145)** | (361,487) |
| *Changes in operating assets and liabilities:* | | |
| Net increase/(decrease) in insurance contract liabilities | **2,101,766** | (2,029,180) |
| Net (increase)/decrease in reinsurance contract assets | **(1,514,495)** | 962,119 |
| Net (increase)/decrease in other receivables | **(4,662)** | (30,810) |
| Net increase/(decrease) in other payables | **19,107** | 120,305 |
| **Cash used by operations** | **522,214** | 1,302,239 |
| Corporation tax recovered/(paid) | **9,636** | - |
| **Net cash used by operating activities** | **531,850** | 1,302,239 |
| **Cash flows from investing activities** | | |
| Sale of financial investments | **5,208,155** | 7,512,988 |
| Purchases of financial investments | **(7,877,653)** | (5,781,564) |
| Dividends received | **147,744** | 167,678 |
| Interest received | **341,400** | 193,809 |
| **Net cash used by investing activities** | **(2,180,354)** | 2,092,912 |
| **Cash flows from financing activities** | | |
| Dividends paid to company's shareholders | **(188)** | (188) |
| **Net cash used by financing activities** | **(188)** | (188) |
| **Net increase/decrease in cash and cash equivalents** | **(1,648,692)** | 3,394,963 |
| Cash and cash equivalents at beginning of year | **6,049,277** | 2,654,314 |
| **Cash and cash equivalents at end of year** | **4,400,585** | 6,049,277 |

*The comparative financial statements have been restated as detailed in note 24.

### 1 Accounting policies

The material accounting policies 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, unless otherwise stated

**Basis of preparation**
The Company's financial statements have been prepared with accounting policies applied in accordance with UK-adopted International Accounting Standards (IAS) and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments.

The Company itself maintains a strong balance sheet position and good capital coverage, and it has no external loans. The Company reinsures all of its current business, except for terrorism cover, with EIO, which also provides administrative services within a profit share arrangement. Therefore, most of its insurance risks are ultimately borne by EIO, which is well capitalised and has ratings of A2 and A with Moodys and AM Best respectively. The Company's assets excluding reinsurers share of contract provisions are also greater than insurance contract liabilities. The current economic climate, continued inflation and cost of living crisis, driven by a number of economic and political events over the past few years, has continued to create additional uncertainty in the business during 2023 and into 2024. Our investment return has been impacted through continued volatility, but we maintain a long-term strategy on the portfolio to generate profits, and we are aware of increased costs within the Company's expense base as inflation continues but with signs that this will begin to reduce. We are also cognisant of the impact of this volatility to our customers and remain mindful of this in our underwriting and grant-giving strategy. Our capital position and solvency coverage remain in a strong position and projections suggest this would continue. We continue to closely monitor developments in this area and the evolving impact it may have on the business. The directors have considered stresses to the solvency and liquidity of the Company to 31 December 2025 and are satisfied that these appropriately demonstrate the resilience of the business (and are significantly more extreme than those experienced to date) and after considering the stresses and any mitigating actions as well as the financial and operating capability of EIO, the directors believe the Company is well placed to manage such risks to 31 December 2025. 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 Report and Accounts.

In preparing these financial statements the directors have considered the impact of the physical and transition risks of climate change and identified this as a principal risk as set out on page 13, but have concluded that it does not have a material impact on the recognition and measurement of the assets and liabilities in these financial statements as at 31 December 2023. This is because the assets are reported at fair value under IAS as set out in the note below therefore utilise market prices at the period end. These market prices will include the current expectations of the impact of climate change on these investments. Insurance liabilities are accrued based on past insurable events so will not be impacted by any future impact of climate change. However, we recognise that government and societal responses to climate change risks are still developing, and the future impact cannot be predicted. Future valuations of assets may therefore differ as the market responds to these changing impacts or assesses the impact of current requirements differently and the frequency/magnitude of future insurable events linked to the effect of climate risks could change.

The exemption in CA 2006 s402 and s405(2) has been taken as the subsidiary is not material to the financial statements. The Company has elected not to produce consolidated financial statements. The subsidiary disclosed in note 22 is dormant, having not traded since incorporation.

**Presentational currency**

The Company financial statements are presented in GBP Sterling (£), being its functional and presentational currency.

**1 Accounting policies (continued)**

**New and revised standards**
A number of amendments and improvements to accounting standards have been issued by the International Accounting Standards Board (IASB), and endorsed by the UK, with an effective date of on or after 1 January 2023, and are therefore applicable for the 31 December 2023 financial statements.

IFRS 9 Financial Instruments and IFRS 17 Insurance Contracts have been adopted in the year.

IFRS 9 introduces a new model for the classification and measurement of financial instruments, a single, forward-looking ‘expected credit loss’ impairment model and a reformed approach to hedge accounting.

IFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Key relevant concepts for the Company are:

- Expected profits are explicitly spread over the lifetime of the contract in a formulaic manner matched to the provision of current and future coverage, rather than for example embedded within ongoing releases from a prudent reserving basis.
- Expected losses (arising on onerous contracts) are recognised up front and as and when identified.

The effects of adopting IFRS 9 and IFRS 17 are disclosed in note 24.

Amendments to other standards in issue and effective from 1 January 2023 and those not yet effective are not expected to materially impact the Company. These include:

- Amendment to IAS 8 - Definition of Accounting Estimates
- Amendment to IAS 1 - Disclosure of Accounting Policies
- Amendment to IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction

**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. Those estimates which have the most material impact on the financial statements are disclosed in note 2.

**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.

**Insurance Service Result**
Insurance service result is stated before finance costs.

**1 Accounting policies (continued)**

**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.

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. Unrealised gains or losses represent the difference between the valuation of investments at the year end date and their purchase price. The movement in unrealised gains and losses therefore comprises the increase or decrease in the year, together with the reversal of previously recognised unrealised gains and losses on investments disposed of in the year.

**Insurance contract liabilities**

The Company adopted IFRS 17 Insurance Contracts on 1 January 2023. IFRS 17 provides a comprehensive and consistent approach to accounting for insurance contracts. It replaces IFRS 4 Insurance Contracts, which was issued in 2005 and was largely based on grandfathering of previous local accounting policies. The application of IFRS 17 impacts the measurement and presentation of insurance contracts and reinsurance contracts.

Contracts under which the Company accepts significant insurance risk are classified as insurance contracts. Insurance risk is transferred when the Company agrees to compensate a policyholder should an adverse specified uncertain future event occur. Contracts held by the Company under which it transfers significant insurance risk related to underlying insurance contracts are classified as reinsurance contracts held. Insurance and reinsurance contracts held also expose the Company to financial risk.

Under IFRS 17 the presentation of insurance revenue and insurance service expenses in the statement of profit or loss is based on the concept of insurance service provided during the period.

Accounting policy changes resulting from the adoption of IFRS 17 for the General Insurance business have been applied using a full retrospective approach. The Company is required to use the full retrospective approach for transition from IFRS 4 to IFRS 17 where it is practicable to do so. Under the full retrospective approach, on 1 January 2022 the Company has identified, recognised and measured each group of insurance contracts as if IFRS 17 requirements had always applied and derecognised previously reported balances that would not have existed if IFRS 17 had always been applied. These implicitly include insurance receivables and payables that are attributable to existing insurance contracts. Under IFRS 17, they are included in the measurement of insurance contracts issued and reinsurance contracts held.

Comparative figures in the financial statements have been restated to reflect the impact of adoption of IFRS 17.

Insurance contract liabilities are measured as the sum of the liability for incurred claims (LIC) and liability for remaining coverage (LFRC). The LIC represents the obligation to pay valid claims for insured events that have occurred, which may also include events that have already occurred but have not been reported to the Company. The LFRC represents the Company’s liability for insured events that have not yet occurred under the insurance contract. Under IFRS 17, insurance revenue in each reporting period represents the change in the LFRC that relates to services for which the Company expects to receive consideration.

**General insurance and reinsurance contracts**
***(i) Classification***
The Company issues general insurance products to both individuals and businesses. The Company offers general insurance products primarily for churches, as well as home and commercial insurance.

**1 Accounting policies (continued)**

The Company does not offer any product with direct participating features.

***(ii) Separating components***

The Company assesses its insurance and reinsurance products to determine whether they contain distinct components which must be accounted for under another IFRS instead of under IFRS 17. After separating any distinct components, the Company applies IFRS 17 to all remaining components of the host insurance contract. The Company's insurance and reinsurance contracts do not include any components that require separation.

Once the consideration of distinct components has been determined, the Company assesses whether the contract should be separated into several insurance components that, in substance, should be treated as separate contracts. To determine whether a single legal contract does not reflect the substance of the

transaction and its insurance components should be recognised and measured separately instead, the Company considers whether there is an interdependency between the different risks covered, whether components can lapse independently of each other and whether the components can be priced and sold separately.

***(iii) Level of aggregation***

Insurance and reinsurance contracts are aggregated into portfolios and split into annual cohorts and profitability groups for measurement and presentational purposes. The portfolios are comprised of contracts with similar risks which are managed together. Judgement is applied when determining portfolios and includes drivers such as geography, lines of business (where these are separate components). Management considers the insurance contracts issued and the reinsurance contracts held are determined to present a portfolio.

Each annual cohort of business recognised within the portfolio is further divided into groups based on the expected profitability, determined at initial recognition and assessed using actuarial valuation models applied to lower level sets of contracts. As a minimum the following groupings are separated:

- Onerous contracts;
- Contracts that have no significant possibility of becoming onerous (based on the probability that changes to assumptions result in contracts becoming onerous); and
- Any remaining contracts.

Contracts are considered onerous if the fulfilment cashflows allocated to that group of contracts in total are a net outflow. Where the Premium Allocation Approach (see section (vi)) is applied, the Company uses an IFRS 17 permitted simplification that assumes that no contracts in a portfolio are onerous at initial recognition unless facts and circumstances indicate otherwise. The Company has developed methodology that identifies facts and circumstances that indicate whether a set of contracts is onerous, which is primarily based on internal management budgeting information.

***(iv) Recognition and derecognition***

An insurance contract issued by the Company is recognised from the earliest of:

- The date the Company is exposed to risk which is ordinarily the beginning of the coverage period (i.e. the period during which the Company provides services in respect of any premiums within the contract boundary of the contract);
- The date the first premium payment from the policyholder becomes due or, if there is no contractual due date, when it is received from the policyholder; or
- The date when facts and circumstances indicate the contract is onerous.

**1 Accounting policies (continued)**

When a contract is recognised, it is added to an existing group of contracts. However, if the contract does not qualify for inclusion in an existing group, it forms a new group to which future similar contracts are added. Groups of contracts are established on initial recognition and their composition is not revised once all contracts have been added to the group.

The Company derecognises insurance contracts when:

- The rights and obligations relating to the contract are extinguished (i.e. discharged, cancelled or expired); or
- The contract is modified such that the modification results in a change in the measurement model or the applicable standard for measuring a component of the contract, substantially changes the contract boundary, or requires the modified contract to be included in a different group. In such cases, the Company derecognises the initial contract and recognises a new contract based on the modified terms.

When a modification is not treated as a derecognition, the Company recognises amounts paid or received for the modification with the contract as an adjustment to the relevant LFRC.

Reinsurance contracts are recognised on the same basis.

***(v) Contract boundaries***

The Company uses the concept of contract boundary to determine what cash flows should be considered in the measurement of groups of insurance contracts. The measurement of a group of contracts includes all the future cash flows within the boundary of each contract in the group, determined as:

***Insurance contracts***
Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay the premiums, or in which the Company has a substantive obligation to provide the policyholder with services. A substantive obligation to provide services ends when:

- The Company has the practical ability to reassess the risks of the policyholder and, as a result, can set a price or level of benefits that fully reflects those risks; or
- The Company has the practical ability to reassess the risks of the portfolio that contains the contract and can set a price or level of benefits that fully reflects the risks of that portfolio, and the pricing of the premiums up to the reassessment date does not consider risks that relate to periods after the reassessment date.

The contract boundary is reassessed at each reporting date to include the effect of changes in circumstances on the Company's substantive rights and obligations and, therefore, may change over time.

***Reinsurance contracts***

Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Company is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer.

A substantive right to receive services from the reinsurer ends when the Company is no longer compelled to pay amounts to the reinsurer and if the reinsurer:

- has the practical ability to reassess the risks transferred to it and can set a price or level of benefits that fully reflects those reassessed risks; or
- has a substantive right to terminate the coverage.

**1 Accounting policies (continued)**

The contract boundary is reassessed at each reporting date to include the effect of changes in circumstances on the Company's substantive rights and obligations and, therefore, may change over time**.**

***(vi) Measurement model – Premium Allocation Approach (PAA)***
The Company applies the PAA when measuring the liability for remaining coverage of groups of insurance and reinsurance contracts when the following criteria are met at inception:

***Insurance contracts:***

- The coverage period of each contract in the group is one year or less; or
- Where the coverage period of a group of contracts is longer than one year, it is reasonably expected that the measurement of the liability for remaining coverage for the group containing those contracts under PAA does not differ materially from the measurement that would be recognised by applying the General Measurement Model (GMM).

***Reinsurance contracts held:***

- The coverage period of each contract in the group is one year or less; or
- The Company reasonably expects that the resulting measurement of the asset for remaining coverage under the PAA would not differ materially from the result of applying the GMM.

The vast majority of the Company's insurance business has a duration of one year or less and the PAA model is eligible automatically. Where the PAA model is not automatically eligible, financial modelling is performed comparing the financial effects under the two models. Where the financials are not expected to be materially different under the GMM and PAA, the relevant unit of account is treated as PAA eligible. The reinsurance contracts held are covered by an agreement that spans longer than one year but has been assessed to be eligible for use of the PAA model.

***Initial recognition***

On initial recognition of each group of contracts, the carrying amount of the LFRC is measured as the premiums received less any insurance acquisition cash flows allocated to the group at that date. For reinsurance contracts held, the measurement of the reinsurance contract held includes all expected cash flows within the boundary of the reinsurance contract, including those cash flows related to recoveries from future underlying insurance contracts that have not yet been issued by the Company, but are expected to be issued during the coverage period of the reinsurance contract held.

***Subsequent recognition***
For insurance contracts issued, at each of the subsequent reporting dates, the LFRC is:

- Increased by any premiums received and insurance acquisition cash flows recognised as expenses; and
- Decreased by the amount recognised as insurance revenue for services provided and any additional insurance acquisition cash flows allocated after initial recognition.

For reinsurance contracts held, at each of the subsequent reporting dates, the Company applies the same accounting policies to measure a group of reinsurance contracts held, adapted where necessary to reflect features as relevant to those contracts.

To identify onerous contracts, the PAA facts and circumstances test uses the latest signed-off Corporate Strategic Plan, identifying portfolios of contracts with a gross combined operating ratio (COR) > 100% (including risk adjustment), when aligned to the relevant period being tested. Where the Company recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or when further onerous underlying insurance contracts are added to a group, a loss component is recognised.

**1 Accounting policies (continued)**

The Company also establishes a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held representing the expected recovery of the losses.

A loss-recovery component is subsequently reduced to zero in line with reductions in the onerous group of underlying insurance contracts to reflect that the loss-recovery component shall not exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that the Company expects to recover from the group of reinsurance contracts held.

If at any time during the coverage period, facts and circumstances indicate that a group of contracts is onerous, then the Company recognises a loss within insurance service expenses in the statement of profit or loss and increases the liability for remaining coverage to the extent that the current estimates of the fulfilment cash flows that relate to remaining coverage exceed the carrying amount of the liability for remaining coverage. Measurement of the loss component arising from the identification of onerous contracts is based on the future expected profitability calculation attributed to the annual cohort(s) which are indicated to be loss making.

The Company recognises the LIC of a group of insurance contracts at the discounted amount of the future cash flows relating to claims incurred but not yet settled and attributable expenses.

Discount rates are applied to reflect the time value of money and characteristics of the liability cash flows and contracts (including liquidity).

The change in the LIC due to the effects of the time value of money and financial risk is recognised within the Insurance finance Income/(expenses) for insurance contracts issued in the statement of profit or loss.

The Company recognises the loss arising from onerous contracts as part of the insurance service expense in the statement of profit or loss. If there are no changes in expectations in subsequent periods, the release of the loss component is recognised as an adjustment to insurance service expenses in the statement of profit or loss in line with the pattern of earned premium.

***(vii) Risk adjustment***

The Risk Adjustment for non-financial risk is the compensation the Company requires for bearing the uncertainty about the amount and timing of the cash flows that arise from non-financial risk as it fulfils insurance contracts. The addition for uncertainty is assessed using actuarial methods including the Mack method and Bootstrapping techniques, based on at least the 75th percentile confidence level. From time to time, management may elect to select an additional allowance to reflect short-term uncertainty driven by specific events. 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.

Overall, it is estimated that the booked Risk Adjustment provides for a confidence level in the Company non-life reserves of approximately 90% (2022: 90%). Percentile estimates for loss distributions are highly uncertain. They contain a large number of judgements on possible future outcomes. This may mean that the percentile moves year on year whilst our approach to calibrating the loss distribution remains consistent.

***(viii) Insurance acquisition cash flows***

Insurance acquisition cash flows are costs considered directly attributable to selling, underwriting or starting a portfolio of insurance contracts and are presented within the liability for remaining coverage. Insurance acquisition cash flows include direct costs and indirect costs, although the Company does not have any costs directly related to acquisition other than commissions. The PAA provides an option to expense insurance acquisition cash flows as incurred. Given the simple nature of the insurance acquisition cash flows relevant to the Company, this option has been applied.

**1 Accounting policies (continued)**

Under IFRS 17, insurance acquisition cash flows for insurance contracts, insurance receivables and payables, and provisions for levies that are attributable to existing insurance contracts are included in the measurement of insurance contracts issued.

***(ix) Insurance revenue***

Under the premium allocation approach, insurance revenue for the period is the amount of expected premium receipts (excluding any investment component and after adjustment to reflect the time value of money and the effect of financial risk, if applicable) allocated to the period for services provided.

The Company allocates the expected premium receipts to each period of insurance contract services, on the basis of the passage of time or, if the expected pattern of release of risk during the coverage period differs significantly from the passage of time, on the basis of the expected timing of incurred insurance service expenses.

Changes to the basis of allocation are accounted for prospectively as a change in accounting estimate.

***(x) Insurance service expenses***

Insurance service expenses include fulfilment and acquisition cash flows which are costs directly attributable to insurance contracts and comprise both direct costs and the allocation of fixed and variable overheads. It is comprised of the following:

- Incurred claims and benefits excluding investment components;
- Other incurred discretionary attributable insurance service expenses;
- Insurance acquisition cash flows, as and when applicable;
- Changes that relate to past service (i.e. changes in the future cash flows relating to the LIC), as and when applicable; and
- Changes that relate to future service (i.e. losses/reversals on onerous groups of contracts from changes in the loss components), as and when applicable.

Other expenses not meeting the above categories are included in other operating expenses in the statement of profit or loss.

***(xi) Net income or expense from reinsurance contracts***

Net income or expense from reinsurance contracts represents the insurance service result for groups of reinsurance contracts held and comprises of the allocation of reinsurance premiums and other incurred directly attributable claims and expenses.

Reinsurance premium and expenses are recognised using the principles used to determine insurance revenue and expenses. The amount of reinsurance expenses recognised in the reporting period depicts the transfer of received insurance contract services at an amount that reflects the portion of ceding premiums that the Company expects to pay in exchange for those services.

The estimates of the present value of future cash flows of the reinsurance contracts held will reflect the risk of non-performance by the reinsurer and the risk adjustment for reinsurance contracts held and is measured and recognised separately from insurance contracts issued.

Reinsurance expenses reflect the allocation of reinsurance premiums paid or payable for receiving services in the period.

The Company treats reinsurance cash flows that are contingent on claims on the underlying contracts as part of the claims that are expected to be recovered under the reinsurance contract held.

**1 Accounting policies (continued)**

***(xii) Net insurance financial result***

Net insurance financial result comprises the change in the carrying amount of groups of insurance contracts issued and reinsurance contracts held arising from the effect of the time value of money and changes in the time value of money and the effect of financial risk and changes in financial risk.

This arises from the unwinding of discounting of the liability for incurred claims; accretion of interest on and changes in discount rates in the period that impact the measurement of the liability for incurred claims. This application is relevant to both the insurance contracts issued and reinsurance contracts held.

**Claims**

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

**Reinsurance**

The Company has a reinsurance treaty with EIO whereby all business accepted by the company after July 1998 is fully reinsured with EIO with the exception of terrorism cover which is reinsured through a third party. 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 EIO that limits the Company's liability to adverse development in relation to pre-1998 claims.

Reinsurance commission relates to a profit share receivable on the Reinsurance agreement between the Company and EIO. The profit commission receivable is calculated based on the net underwriting result of the related contracts during the year in accordance with the terms of the Reinsurance Agreement. Profit commission is reported within the net expense from reinsurance contracts held.

**Financial instruments**

The Company adopted IFRS 9 Financial Instruments from 1 January 2023 replacing IAS 39 Financial Instruments. IFRS 9 incorporates new classification and measurement requirements for financial assets and introduces a new impairment model based on expected credit loss which replaces the IAS 39 incurred loss model. As permitted by IFRS 4, the Company deferred the application of IFRS 9 to align with the adoption of IFRS 17 from 1 January 2023.

In accordance with the transition requirements of IFRS 9, the comparative period is not restated and there are no measurement differences arising on transition are reported in opening retained earnings as at 1 January 2023.

The Company's IFRS 9 accounting policies are described below:

**(i) Classification and measurement**

All financial assets under IFRS 9 are to be initially recognised at fair value, plus or minus (in the case of a financial asset not at FVTPL) transaction costs that are directly attributable to the acquisition of the financial instrument. Classification and subsequent measurement of financial assets depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

**1 Accounting policies (continued)**

Debt instruments

The Company classifies its debt instruments using the following measurement categories:

- Fair value through profit or loss (FVTPL): Financial assets in this category are those that are managed in a fair value business model, or that have been designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. In order to eliminate or significantly reduce an accounting mismatch, an irrevocable election can be made (on an instrument-by-instrument basis) to classify and measure debt instruments at FVTPL instead of amortised cost or FVOCI. A gain or loss on a debt investment that is measured at FVTPL is recognised in profit or loss at fair value and presented within 'net investment result'.

Equity instruments

- FVTPL: By default, the Company classifies and measures equity investments at FVTPL. Changes in the fair value of equity instruments at FVTPL are recognised in 'net investment result' in the consolidated statement of profit or loss.

In order to eliminate or significantly reduce an accounting mismatch, any previous designation of a financial asset as measured at FVTPL may be revoked in any case, but must be revoked if such designation no longer eliminates, or significantly reduces, an accounting mismatch. Any previous designation of a financial liability as measured at FVTPL that was made on the basis that it eliminated or significantly reduced an accounting mismatch may be revoked in any case, but must be revoked if such designation no longer eliminates or significantly reduces an accounting mismatch. The designation of financial investments held by the Company and classified at FVTPL is considered the most appropriate measurement to meet these requirements.

Cash and cash equivalents, other receivables, and short-term deposit accounts within financial investments are measured at amortised cost using the effective interest rate (EIR) method, less allowance for impairment.

***(ii) Impairment***

The Company recognises a forward-looking loss allowance for expected credit losses (ECL) on financial assets measured at amortised cost or FVOCI. ECL is an unbiased, probability-weighted estimate of credit losses and considers all reasonable and supportable information. The impairment methodology applied depends on whether there has been a significant increase in credit risk or default.

The Company elects to apply the simplified approach permitted by IFRS 9 and recognises lifetime ECL for trade receivables and lease receivables. The ECL on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for current and forecast economic conditions.

The Company's IAS 39 accounting policies are described below:

The Company classifies its financial investments as either financial assets at fair value through profit or loss (designated as such or held for trading), as financial assets available for sale or as loans and receivables.

The adoption of the ECL requirements of IFRS 9 has not resulted in increases in impairment allowances in respect of the Company's debt instruments measured at amortised cost, with the ECL therefore nil.

**1 Accounting policies (continued)**

***(iii) Financial assets at fair value through profit or loss***

Financial investments are classified into this category if they are managed, and their performance evaluated, on a fair value basis. Purchases and sales of these 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. Financial investments within this category are classified as held for trading if they are derivatives that are not accounted for as a net investment hedge or are acquired principally for the purpose of selling in the near term.

The fair values of investments are based on quoted bid prices. Where there is no active market, fair value is established using a valuation technique based on observable market data where available.

***(iv) Derivative financial instruments***

Derivative financial instruments include foreign exchange contracts that derive their value from underlying equity instruments.

All derivatives are initially recognised in the statement of financial position at their fair value on the date on which the derivative contract is entered into, which usually represents their cost, including any premium paid. They are subsequently remeasured at their fair value, with the method for recognising changes in the fair value depending on whether they are designated as hedges of net investments in foreign operations. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

**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.

**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.

**Provisions and contingent liabilities**

Provisions are recognised when the Company has a present legal or constructive obligation, as a result of past events, and 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, but only 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.

**1 Accounting policies (continued)**

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.

**Income tax**
Income tax comprises current and deferred tax.

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.

Note 13 provides details of the deferred taxation charge.

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

**Use of Alternative Performance Measures (APM)**

As detailed in the Strategic Report, the Company uses certain key performance indicators which, although not defined under IFRS, provide useful information and aim to enhance understanding of the Company's performance. The key performance indicators should be considered complementary to, rather than a substitute for, financial measures defined under IFRS. Note 23 provides details of how these key performance indicators reconcile to the results reported under IFRS.

**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, where they arise, 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. In the current and prior year no material judgements were made.

**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 insurance contract liabilities is presented in note 19 (xi).

**2 Critical accounting estimates, and judgements in applying accounting policies (continued)**

**Discount rates**

IFRS 17 requires entities to determine discount rates that reflect the characteristics of the liabilities using either the ‘bottom up’ or ‘top down’ approach. The ‘top down’ approach involves using discount rate curves derived from a portfolio of reference assets adjusted to remove all characteristics of the assets that are not present in insurance contracts, but not requiring to eliminate the illiquidity premium.

The Company selected to continue to apply its previous practice for non-life business of using the ‘bottom up’ approach which requires the use of risk-free rate curves and adding the illiquidity premium. The Company derives illiquidity by reference to the illiquidity estimated to apply to a suitable reference portfolio of assets with similar liquidity characteristics. The published yields on Government bonds in each territory are used as a reference for risk-free rates. Further details on the application of this methodology is included in note 19 (viii).

**Level of aggregation**

The Company separates insurance contracts into portfolios of similar risks that are managed together. The majority of the Company’s insurance contracts represent a combination of component risks which are sold as an overall product and this unit has not been unbundled because the combination is not solely for administrative or customer convenience. For contracts eligible for the PAA (materially all of the portfolio), the lower level products provided to the customer base can all materially be represented by an overarching product line (packaged commercial product of GI risks) with each contract unsuitable for unbundling below the legal contract level. Portfolios of insurance contacts are divided into profitability groups for measurement purposes. Under the PAA model the default assumption is made that no groups are onerous unless facts and circumstances indicate otherwise, which is determined through review for go-forward expected losses for groupings identified in the Corporate Strategic Plan.

**Risk adjustment**

A risk adjustment for non-financial risk is determined to reflect the compensation that the Company would require for bearing non-financial risk and its degree of risk aversion. The risk adjustment for non-financial risk has been determined using a combination of confidence level techniques, and scenarios, with the judgement made that the techniques previously used for quantifying reserve risk appetite and setting reserves explicitly above the best estimate represent the most appropriate mechanism for quantifying compensation required. Further details on the application of this methodology is included in note 19 (vi).

**IFRS 17 transition**

Accounting policy changes resulting from the adoption of IFRS 17 for the General Insurance business have been applied using a full retrospective approach. IFRS 17 requires that these changes are applied retrospectively. Upon transition, the Company has recognised IFRS 17 assets and liabilities and derecognised those under IFRS 4, with the resulting net difference taken to equity. Note 24 provides further details of this approach and the impact of the restatement.

**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.

**3 Insurance risk (continued)**

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 the property or for the value of property lost. Property may also include cover for pecuniary loss through the inability to use damaged or lost insured properties (business interruption). 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, climate change and crime. 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 and amount of risk. 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 in relation to the type of risk accepted is summarised below, with reference to written premiums:

**3 Insurance risk (continued)**

| | Type of risk | | | |
|---|---|---|---|---|
| | **Property £000** | **Liability £000** | **Accident £000** | **Total £000** |
| **Gross written premiums** | | | | |
| **2023** | **8,138** | **2,283** | **380** | **10,801** |
| 2022 | 7,832 | 2,232 | 363 | 10,428 |

The Company operates a Joint Administration Agreement and a Reinsurance Treaty Agreement with EIO, under which EIO manages and administers the Company's insurance business and accepts all insurances written by the Company with the exception of terrorism cover, which is reinsured through a third party, Pool Re, and is responsible for all disbursements relating to the business except certain expenses designated as the sole responsibility of the Company.

**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, weather damage, business interruption, 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.

**(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 class of business include damage to third party 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 19 presents the development of the estimate of ultimate claim cost that includes public and employers' liability claims occurring in a given year. This gives an indication of the accuracy of the estimation technique for incurred claims.

**3 Insurance risk (continued)**

**(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, discount rate 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. Currently, the Company only has access to very limited information for some of these claims. They typically emerge slowly over many years. The Company has reflected 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 Company is exposed to market risk arising from fluctuations in values, including from movements in market prices and interest rates. The most important components of financial and market risk are credit risk, liquidity risk, equity price risk and interest rate risk, as set out further below.

As at the balance sheet date, there had been no change from the prior period to the financial risks that the Company was exposed to, or the manner in which it manages and measures these risks. The current economic climate, continued inflation and cost of living crisis, driven by a number of economic and political events over the past few years, has continued to create additional uncertainty in the business during 2023 and into 2024. Despite this, our capital and solvency position remains strong.

### 4 Financial risk and capital management (continued)

### Categories of financial instruments

### Categories applying IFRS 9

**Categories of financial instruments**

| | Financial assets | | | | |
|---|---|---|---|---|---|
| | **Designated at fair value through profit or loss** | **Amortised cost** | **liabilities at amortised cost** | **Non-financial assets and liabilities** | **Total** |
| At 31 December 2023 | | | | | |
| | **£** | **£** | **£** | **£** | **£** |
| Financial investments | **18,984,876** | **1,375,000** | | **998** | **20,360,874** |
| Other receivables | | **114,439** | | **5,041** | **119,481** |
| Cash and cash equivalents | | **4,400,585** | | | **4,400,585** |
| Other payables | | | **(436,861)** | **(211,563)** | **(648,423)** |
| Net insurance contract provisions | | | | **(3,634,664)** | **(3,634,664)** |
| Current tax (liabilities) / assets | | | | **(96,008)** | **(96,008)** |
| Total | **18,984,876** | **5,890,025** | **(436,861)** | **(3,936,195)** | **20,501,845** |
| At 31 December 2022 (restated*) | | | | | |
| | £ | £ | £ | £ | £ |
| Financial investments | 17,003,537 | | | 998 | 17,004,535 |
| Other receivables | | 109,648 | | 5,171 | 114,818 |
| Cash and cash equivalents | | 6,049,277 | | | 6,049,277 |
| Other payables | | | (571,963) | (167,896) | (739,860) |
| Net insurance contract provisions | | | | (3,047,393) | (3,047,393) |
| Current tax assets / (liabilities) | | | | 9,646 | 9,646 |
| **Total** | **17,003,537** | **6,158,925** | **(571,963)** | **(3,199,475)** | **19,391,024** |

*The comparative financial statements have been restated as detailed in note 24.

The carrying value of those financial assets and liabilities not carried at fair value in the financial statements is considered to approximate to their fair value.

| | **2023** | | | **2022 (restated*)** | | |
|---|---|---|---|---|---|---|
| | **SPPI financial assets** | **Other financial assets** | **Total financial assets** | SPPI financial assets | Other financial assets | Total financial assets |
| | **£** | **£** | **£** | £ | £ | £ |
| Financial Investments | **9,123,019** | **11,236,857** | **20,359,876** | 7,041,490 | 9,962,047 | 17,003,537 |
| Cash and cash equivalents | **4,400,585** | | **4,400,585** | 6,049,277 | | 6,049,277 |
| Other financial assets | **114,439** | | **114,439** | 109,648 | | 109,648 |
| Total fair value | **13,638,043** | **11,236,857** | **24,874,901** | 13,200,414 | 9,962,047 | 23,162,462 |

**4 Financial risk and capital management (continued)**

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

| 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 2023** | | | | |
| Financial investments | | | | |
| Equity securities | **11,232,834** | | | **11,232,834** |
| Debt securities | **7,748,019** | | | **7,748,019** |
| Derivatives | | **4,023** | | **4,023** |
| | **18,980,853** | **4,023** | **-** | **18,984,876** |
| **As at 31 December 2022 (restated*)** | | | | |
| Financial investments | | | | |
| Equity securities | 9,957,334 | | | 9,957,334 |
| Debt securities | 7,041,490 | | | 7,041,490 |
| Derivatives | | 4,714 | | 4,714 |
| | 16,998,823 | 4,714 | - | 17,003,537 |

The derivative financial instruments are foreign currency forward contracts and are valued using observable exchange rates and rates corresponding to the maturity of the contract. At 31 December 2023, £4,023 (2022: £4,714) of derivative financial assets were included in financial investments and £14,869 (2022: £125,413) of derivative financial liabilities included in Other Payables.

**4 Financial risk and capital management (continued)**

**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:

- reinsurance contract assets due from reinsurers;
- amounts due from insurance intermediaries and policyholders;
- corporate bond counterparty default; and
- amounts due from EIO under the Joint Administration Agreement and Reinsurance Treaty.

The carrying amount of financial assets represents the Company’s maximum exposure to credit risk. No significant amounts are overdue, and none are impaired.

The Company uses reinsurance to manage insurance risk, with all business accepted by the Company fully reinsured with EIO, with the exception of terrorism cover which is reinsured through a third party. 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. EIO 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 EIO has credit ratings of A2 (stable outlook) with Moody’s, 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.

Where available the Company manages its exposure to credit risk in relation to credit risk ratings. Investment grade financial assets are classified within the range AAA to BBB ratings, where AAA is the highest possible rating. Financial assets which fall outside this range are classified as sub-investment grade. ‘Not-rated’ assets capture assets not rated by external rating agencies.

**4 Financial risk and capital management (continued)**

The following table provides information regarding the credit risk exposure of financial assets with credit ratings from Standard & Poor's or from a similar agency. This includes financial assets that meet the definition of 'solely payments of principal and interest' (SPPI).

| **As at 31 December 2023** | | **SPPI** | | | **Non-SPPI** |
|---|---|---|---|---|---|
| | **Debt instruments** | **Cash and cash equivalents** | **Other financial assets** | **Total SPPI** | **Financial Investments** |
| **AAA** | **133,770** | **-** | **-** | **133,770** | **-** |
| **AA** | **6,547,655** | **-** | **-** | **6,547,655** | **-** |
| **A** | **-** | **4,400,585** | **1,375,000** | **5,775,585** | 4,023 |
| **BBB** | **146,229** | **-** | **-** | **146,229** | **-** |
| **Below BBB** | **-** | **-** | **-** | **-** | **-** |
| **Not rated** | **920,364** | **-** | **114,439** | **1,034,804** | **11,232,834** |
| | **7,748,018** | **4,400,585** | **1,489,439** | **13,638,043** | **11,236,857** |

| As at 31 December 2022 | | | | SPPI | Non-SPPI |
|---|---|---|---|---|---|
| | Debt instruments | Cash and cash equivalents | Other financial assets | Total SPPI | Financial Investments |
| AAA | 133,890 | - | - | 133,890 | - |
| AA | 6,180,416 | - | - | 6,180,416 | - |
| A | - | 6,049,277 | - | 6,049,277 | 4,714 |
| BBB | 148,641 | - | - | 148,641 | - |
| Below BBB | - | - | - | - | - |
| Not rated | 578,543 | - | 109,648 | 2,536,977 | 9,957,334 |
| | 7,041,490 | 6,049,277 | 109,648 | 15,049,200 | 9,962,047 |

The Company outsources its day-to-day operations to EIO. 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 EIO, with close monitoring of performance against agreed service levels and specific business continuity plans.

### Liquidity risk

Liquidity risk is the risk that funds may not be available to pay obligations when due. The Company is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts. 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 investment assets. This is not considered to be a significant risk to the Company.

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 19.

### Market risk

As assessment of the key elements impacting market price for the Company are as follows.

**4 Financial risk and capital management (continued)**

**(i) 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.

| Analysis of fair value measurement bases | Maturing within: | | | |
|---|---|---|---|---|
| | **1 year** | **1-5 years** | **>5 years** | **Total** |
| | **£** | **£** | **£** | **£** |
| **As at 31 December 2023** | | | | |
| Debt securities | **3,124,669** | **1,401,132** | **3,222,217** | **7,748,018** |
| Other assets including insurance instalment receivables | **1,604,339** | **-** | **-** | **1,604,339** |
| Cash and cash equivalents | **4,400,585** | **-** | **-** | **4,400,585** |
| | **9,129,593** | **1,401,132** | **3,222,217** | **13,752,942** |
| **As at 31 December 2022** | | | | |
| Debt securities | 102,523 | 3,983,659 | 2,955,308 | 7,041,490 |
| Other assets including insurance instalment receivables | 1,436,415 | - | - | 1,436,415 |
| Cash and cash equivalents | 6,049,277 | - | - | 6,049,277 |
| | 7,588,215 | 3,983,659 | 2,955,308 | 14,527,181 |

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

**(ii) Currency risk**
The Company operates in the UK. 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:

| | **2023** | **2022** |
|---|---|---|
| **US Dollar** | **9,236,601** | 7,356,798 |
| **Euro** | **1,714,620** | 1,401,248 |

This exposure is reduced through the use of currency forward contracts. The underlying value of these instruments are $6,914,647 (2022: $5,722,006) and €1,332,422 (2021: €798,330)

**(iii) 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 15 to the financial statements.

**(iv) 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:

### 4 Financial risk and capital management (continued)

| Variable | Change in variable | Potential increase/ (decrease) in profit after tax and equity 2023 | 2022 |
|---|---|---|---|
| | | £ | £ |
| **Interest rate risk** | -100 basis points | 154,434 | 127,695 |
| | +100 basis points | (279,328) | (374,775) |
| **Currency risk** | -10.0% | (230,731) | (219,695) |
| | +10.0% | 230,731 | 219,695 |
| **Equity price risk** | -10.0% | (859,312) | (806,543) |
| | +10.0% | 859,312 | 806,543 |

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 rate of 23.5% (2022: 19.00%).

**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, in accordance with its corporate mission, vision and values.

The Company is required to comply with the rules issued by the PRA and FCA, including Solvency II. Annual quantitative returns are submitted to the PRA. A further report, the Solvency and Financial Condition Report (SFCR) is produced annually and must be published on the Company's website.

During the year, the Company complied with these capital requirements.

The Company has adopted the Solvency II standard formula approach to determine its solvency capital requirement (SCR). The Company is required to maintain its regulatory capital above the higher of the SCR and MCR (Minimum Capital Requirement). For the 2023 accounts, the applicable measure is the MCR. 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 Assessment Report (ORSA) which is a private, internal forward-looking assessment of own risk and capital requirement, 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 MCR.

### 5 Insurance Revenue

| | **2023** | **2022** |
|---|---|---|
| | **£** | **£** |
| Contracts measured under PAA | **10,624,295** | 9,924,236 |
| **Total insurance revenue** | **10,624,295** | 9,924,236 |

## 6 Insurance Service Expenses

| | | 2023<br>£ | 2022<br>£ |
|---|---|---|---|
| Incurred claims and benefits excluding investment components | | **4,578,028** | 3,826,191 |
| Other directly attributable expenses | 9 | **303,509** | 296,582 |
| Insurance acquisition cash flows recognised when incurred | 19 | **55,198** | 58,653 |
| Changes that relate to past service | 19 | **944,242** | (1,526,637) |
| Total insurance service expenses | | **5,880,977** | 2,654,789 |

## 7 Net insurance financial result

| | 2023<br>£ | 2022<br>£ |
|---|---|---|
| **Insurance finance income/(expense) from insurance contracts issued** | | |
| Interest accreted | **(103,000)** | 1,138,000 |
| Effect of changes in interest rates and other financial assumptions | **(254,000)** | (48,000) |
| Total | **(357,000)** | 1,090,000 |
| **Reinsurance finance income/(expense) from reinsurance contracts held** | | |
| Interest accreted | **132,000** | (488,000) |
| Effect of changes in interest rates and other financial assumptions | **122,000** | (124,000) |
| Total | **254,000** | (612,000) |
| Net insurance financial result | **(103,000)** | 478,000 |

The net insurance financial expense of £103,000 (2022: income of £478,000) recognised in the statement of profit or loss has been impacted by significant increases in discount rates during 2022, with smaller changes seen to rates during 2023. Due to the high level of reinsurance contracts held, the net amount is diluted in both periods. The impact of discount rates on the net insurance financial income is mitigated by movements in the investment return as can be seen within the respective returns.

### 8 Net Investment Return

| | 2023<br>£ | 2022<br>£ |
|---|---|---|
| *Income from financial assets at fair value through the statement of profit or loss:* | | |
| - dividend income | 147,745 | 167,678 |
| - interest income | 179,280 | 135,989 |
| *Income from financial assets calculated using the effective interest rate method:* | | |
| - cash and cash equivalents income | 67,105 | 28,506 |
| - other income received | 95,015 | 29,314 |
| **Investment Income** | **489,145** | **361,487** |
| Fair value gains/(losses) on investments at fair value through the statement of profit or loss | 797,384 | (2,859,961) |
| **Net Investment Return** | **1,286,528** | **(2,498,473)** |

Included within cash and cash equivalents income are exchange losses of £3,224 (2022: £24,619 gains).

### 9 Expenses

An analysis of the expenses incurred by the Company is included in the table below:

| | 2023 £ | | | 2022 £ | | |
|---|---|---|---|---|---|---|
| | Other directly attributable expenses | Other operating expenses | **Total** | Other directly attributable expenses | Other operating expenses | **Total** |
| Directors' fees and expenses | 87,386 | 87,386 | **174,771** | 77,799 | 77,799 | 155,598 |
| Professional fees | 13,211 | 3,000 | **16,211** | 17,135 | 9,000 | 26,135 |
| Charitable grants | - | 500,000 | **500,000** | - | 5,250 | 5,250 |
| Other operating expenses | 202,914 | 13,155 | **216,068** | 201,647 | 17,114 | 218,762 |
| Investment expenses | - | 110,204 | **110,204** | - | 121,752 | 121,752 |
| **Total operating expenses** | **303,510** | **713,744** | **1,017,254** | **296,582** | **230,916** | **527,497** |

Other directly attributable expenses comprise expenses incurred by the Company in the reporting period that relate directly to the fulfilment of contracts issued within IFRS17’s scope.

The directors are considered to be the key management personnel of the Company.

## 10 Auditor's Remuneration

| | 2023 £ | 2022 £ |
|---|---|---|
| Fees payable to the Company's auditor for: | | |
| - The audit of the Company's annual accounts | **148,325** | 144,500 |
| **Total audit fees** | **148,325** | 144,500 |

There were no fees incurred for non-audit services or Solvency II in both years.

Amounts disclosed are exclusive of VAT.

## 11 Employee Information

As all management services are provided by EIO under the terms of the Joint Administration Agreement, the Company had no employees in either the current or prior year.

## 12 Charitable donations

| | 2023 £ | 2022 £ |
|---|---|---|
| Charitable donations to Methodist funds and organisations | **500,000** | - |
| Charitable donations to other organisations | **-** | 5,250 |
| **Charitable donations paid or accrued** | **500,000** | 5,250 |

Actual monies paid amounted to £500,000 (2022: £5,250).

### 13 Taxation

| | 2023<br>£ | 2022<br>£ |
|---|---|---|
| UK corporation tax for the current financial year | | |
| Adjustment in respect of prior periods | 96,018 | - |
| **Tax expense** | **96,018** | - |

| | 2023<br>£ | 2022<br>£ |
|---|---|---|
| Profit/ (Loss) before tax | 1,207,027 | (218,667) |
| Tax credit/(expense) calculated at the UK standard rate for the year of 23.5% (2022: 19.0%). | 283,899 | (41,547) |
| Factors affecting charge for the period: | | |
| Dividends from UK companies | (73,504) | (123,047) |
| Impact of differential between current and deferred tax rate | - | 163,595 |
| Expenses not deductible for tax purposes | - | 998 |
| Losses utilised | (114,378) | - |
| **Tax credit/(expense)** | **96,018** | **-** |

As at 31 December 2022 (restated) the company had unused tax losses of £486,288 for which no deferred tax asset has been recognised. The losses were carried forward and fully utilized at 31 December 2023 (£114,378).

Current tax has been provided at a rate of 23.5% for the current year (2022: 19%).

The UK corporation tax rate was increased from 19% to 25% with effect from 1 April 2023.

### 14 Dividends Paid

| | 2023<br>£ | 2022<br>£ |
|---|---|---|
| *Amounts recognised as distributions to equity holders in the period:* | | |
| Dividends | **188** | 188 |

This equates to a dividend of 1p per share (2022: 1p)

## 15 Financial Investments

Financial investments summarised by measurement category are as follows:

| | 2023<br>£ | *Restated*<br>2022<br>£ |
|---|---|---|
| *Financial investments at fair value through the statement of profit or loss* | | |
| Equity securities: | | |
| - listed | 11,232,834 | 9,957,334 |
| Debt securities: | | |
| - government bonds | 6,827,655 | 6,462,947 |
| - listed | 920,364 | 578,543 |
| Derivative financial instruments | 4,023 | 4,714 |
| | 18,984,876 | 17,003,537 |
| *Financial investments at amortised cost* | | |
| Short-term deposit account | 1,375,000 | - |
| | 1,375,000 | - |
| *Investments in group undertakings* | | |
| Shares in subsidiary undertakings (see note 22) | 998 | 998 |
| | 998 | 998 |
| **Total financial investments** | **20,360,874** | **17,004,535** |

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

## 16 Other Receivables

| | 2023<br>£ | 2022<br>£ |
|---|---|---|
| Other receivables | 13,292 | 28,552 |
| Prepayments & accrued income | 106,189 | 86,266 |
| | 119,481 | 114,818 |

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

No impairment charges have been recognised in the current or prior year.

### 17 Cash and cash equivalents

| | 2023<br>£ | 2022<br>£ |
|---|---|---|
| Cash held at bank and in hand | 995,999 | **80,878** |
| Short term bank deposits | 3,404,586 | **5,968,399** |
| | **4,400,585** | **6,049,277** |

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

### 18 Called up share capital

| | 2023<br>£ | 2022<br>£ |
|---|---|---|
| *Issued, allotted and fully paid:* | | |
| 18,750 ordinary shares of £6, each fully paid | **112,500** | 112,500 |
| | **112,500** | **112,500** |

The Company has one class of ordinary shares which carry no right to fixed income.

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.

## 19 Insurance liabilities and reinsurance assets

| | 2023 £ | 2022 £ |
|---|---|---|
| **Gross** | | |
| Insurance contract liabilities for incurred claims | **11,850,730** | **9,974,757** |
| Insurance contract liabilities for remaining coverage | **4,725,933** | 4,500,140 |
| Total gross insurance contract liabilities | **16,576,663** | 14,474,897 |
| **Recoverable from reinsurers** | | |
| Reinsurance contract assets for incurred claims | **8,081,899** | 5,715,161 |
| Reinsurance contract assets for remaining coverage | **4,860,100** | 5,712,343 |
| Total reinsurers' share of insurance liabilities | **12,941,999** | **11,427,504** |
| **Net** | | |
| Insurance contract liabilities for incurred claims | 3,768,832 | 4,259,596 |
| Insurance contract liabilities for remaining coverage | (134,167) | (1,212,203) |
| Total net insurance liabilities | **3,634,664** | **3,047,393** |
| **Maturity analysis of insurance liabilities and reinsurance assets** | | |
| **Gross insurance liabilities** | | |
| Current (less than one year) | 8,400,935 | 6,570,318 |
| Non-current (greater than one year) | 8,175,728 | 7,904,579 |
| Total gross insurance liabilities | **16,576,663** | 14,474,897 |
| **Reinsurance assets** | | |
| Current (less than one year) | 8,126,102 | 7,486,521 |
| Non-current (greater than one year) | 4,815,897 | 3,940,983 |
| Total reinsurers' share of insurance liabilities | **12,941,999** | 11,427,504 |

## 19 Insurance liabilities and reinsurance assets (continued)

| | Insurance contract liabilities | | Re-Insurance contract assets | | |
|---|---|---|---|---|---|
| | Liabilities for remaining coverage £ | Liabilities for incurred claims £ | Assets for remaining coverage £ | Assets for incurred claims £ | Total £ |
| **At 1 January 2022** | **4,349,035** | **12,155,042** | **(5,457,416)** | **(6,932,206)** | **4,114,455** |
| **Insurance revenue** | **(9,924,236)** | **-** | **-** | **-** | **(9,924,236)** |
| Incurred claims and other insurance service expenses | **-** | **4,122,773** | **-** | **-** | **4,122,773** |
| Changes that relate to past service | **-** | **(1,526,637)** | **-** | **-** | **(1,526,637)** |
| Insurance acquisition cash flows expensed | **58,653** | **-** | **-** | **-** | **58,653** |
| **Insurance service expenses** | **58,653** | **2,596,135** | **-** | **-** | **2,654,789** |
| **Insurance service result before reinsurance contracts held** | **(9,865,582)** | **2,596,135** | **-** | **-** | **(7,269,447)** |
| Allocation of reinsurance premiums | **-** | **-** | **9,835,740** | **-** | **9,835,740** |
| Recoveries of incurred claims and other insurance service expenses | **-** | **-** | **-** | **(5,617,705)** | **(5,617,705)** |
| Changes that relate to past service | **-** | **-** | **-** | **1,018,690** | **1,018,690** |
| **Net expense/(income) from reinsurance contracts** | **-** | **-** | **9,835,740** | **(4,599,015)** | **5,236,725** |
| Finance expense from reinsurance contracts held | **-** | **-** | **-** | **612,000** | **612,000** |
| Finance income from insurance contracts issued | **-** | **(1,090,000)** | **-** | **-** | **(1,090,000)** |
| **Net insurance financial result** | **-** | **(1,090,000)** | **-** | **612,000** | **(478,000)** |
| **Total amounts recognised in statement of profit or loss** | **(9,865,582)** | **1,506,135** | **9,835,740** | **(3,987,015)** | **(2,510,722)** |
| Premiums received | **10,075,340** | **-** | **-** | **-** | **10,075,340** |
| Insurance acquisition cash flows | **(58,653)** | **-** | **-** | **-** | **(58,653)** |
| Claims and other directly attributable expenses paid | **-** | **(3,686,420)** | **-** | **-** | **(3,686,420)** |
| Premiums paid | **-** | **-** | **(10,090,667)** | **-** | **(10,090,667)** |
| Amounts received | **-** | **-** | **-** | **5,204,060** | **5,204,060** |
| **Total cash flows** | **10,016,687** | **(3,686,420)** | **(10,090,667)** | **5,204,060** | **1,443,661** |
| **At 31 December 2022** | **4,500,140** | **9,974,757** | **(5,712,343)** | **(5,715,161)** | **3,047,393** |
| **Insurance revenue** | **(10,624,295)** | **-** | | | **(10,624,295)** |
| Incurred claims and other insurance service expenses | **-** | **4,881,537** | **-** | **-** | **4,881,537** |
| Changes that relate to past service | **-** | **944,242** | **-** | **-** | **944,242** |
| Insurance acquisition cash flows expensed | **55,198** | **-** | **-** | **-** | **55,198** |
| **Insurance service expenses** | **55,198** | **5,825,779** | **-** | **-** | **5,880,977** |
| **Insurance service result before reinsurance contracts held** | **(10,569,096)** | **5,825,779** | **-** | **-** | **(4,743,317)** |
| Allocation of reinsurance premiums | **-** | **-** | **10,555,981** | **-** | **10,555,981** |
| Recoveries of incurred claims and other insurance service expenses | **-** | **-** | **-** | **(5,079,502)** | **(5,079,502)** |
| Changes that relate to past service | **-** | **-** | **-** | **(1,470,403)** | **(1,470,403)** |
| **Net expense/(income) from reinsurance contracts** | **-** | **-** | **10,555,981** | **(6,549,905)** | **4,006,076** |
| Finance expense from reinsurance contracts held | **-** | **-** | **-** | **(254,000)** | **(254,000)** |
| Finance income from insurance contracts issued | **-** | **357,000** | **-** | **-** | **357,000** |
| **Net insurance financial result** | **-** | **357,000** | **-** | **(254,000)** | **103,000** |
| **Total amounts recognised in statement of profit or loss** | **(10,569,096)** | **6,182,779** | **10,555,981** | **(6,803,905)** | **(634,241)** |
| Premiums received | **10,850,088** | **-** | **-** | **-** | **10,850,088** |
| Insurance acquisition cash flows | **(55,198)** | **-** | **-** | **-** | **(55,198)** |
| Claims and other directly attributable expenses paid | **-** | **(4,306,806)** | **-** | **-** | **(4,306,806)** |
| Premiums paid | **-** | **-** | **(9,703,739)** | **-** | **(9,703,739)** |
| Amounts received | **-** | **-** | **-** | **4,437,168** | **4,437,168** |
| **Total cash flows** | **10,794,889** | **(4,306,806)** | **(9,703,739)** | **4,437,168** | **1,221,512** |
| **At 31 December 2023** | **4,725,933** | **11,850,730** | **(4,860,100)** | **(8,081,899)** | **3,634,664** |

### 19 Insurance liabilities and reinsurance assets (continued)

i) Reconciliation of the liability for remaining coverage

| | PAA | | |
|---|---|---|---|
| | Excluding loss component £ | Loss component £ | Total £ |
| **At 1 January 2022** | **4,349,035** | **-** | **4,349,035** |
| **Insurance revenue** | **(9,924,236)** | **-** | **(9,924,236)** |
| Incurred claims and other insurance service expenses | **-** | **-** | **-** |
| Insurance acquisition cash flows expensed | **58,653** | **-** | **58,653** |
| **Insurance service expenses** | **58,653** | **-** | **58,653** |
| **Total amounts recognised in statement of profit or loss** | **(9,865,582)** | **-** | **(9,865,582)** |
| Premiums received | **10,075,340** | **-** | **10,075,340** |
| Insurance acquisition cash flows | **(58,653)** | **-** | **(58,653)** |
| **Total cash flows** | **10,016,687** | **-** | **10,016,687** |
| **At 31 December 2022** | **4,500,140** | **-** | **4,500,140** |
| **Insurance revenue** | **(10,624,295)** | **-** | **(10,624,295)** |
| Incurred claims and other insurance service expenses | **-** | **-** | **-** |
| Insurance acquisition cash flows expensed | **55,198** | **-** | **55,198** |
| **Insurance service expenses** | **55,198** | **-** | **55,198** |
| **Total amounts recognised in statement of profit or loss** | **(10,569,096)** | **-** | **(10,569,096)** |
| Premiums received | **10,850,088** | **-** | **10,850,088** |
| Insurance acquisition cash flows | **(55,198)** | **-** | **(55,198)** |
| **Total cash flows** | **10,794,889** | **-** | **10,794,889** |
| **At 31 December 2023** | **4,725,933** | **-** | **4,725,933** |

## 19 Insurance liabilities and reinsurance assets (continued)

ii) Reconciliation of the liability for incurred claims

| | Estimates of present value of future cash flows £ | Risk adjustment for non-financial risk £ | Total £ |
|---|---|---|---|
| **At 1 January 2022** | 9,529,042 | 2,626,000 | 12,155,042 |
| Incurred claims and other insurance service expenses | 3,754,773 | 368,000 | 4,122,773 |
| Changes that relate to past service | (674,637) | (852,000) | (1,526,637) |
| **Insurance service expenses** | 3,080,135 | (484,000) | 2,596,135 |
| **Insurance service result before reinsurance contracts held** | 3,080,135 | (484,000) | 2,596,135 |
| Finance income from insurance contracts issued | (1,090,000) | | (1,090,000) |
| **Net insurance financial result** | (1,090,000) | - | (1,090,000) |
| **Total amounts recognised in statement of profit or loss** | 1,990,135 | (484,000) | 1,506,135 |
| **Exchange differences** | - | | - |
| Claims and other directly attributable expenses paid | (3,686,420) | | (3,686,420) |
| **Total cash flows** | (3,686,420) | - | (3,686,420) |
| **At 31 December 2022** | 7,832,757 | 2,142,000 | 9,974,757 |
| Incurred claims and other insurance service expenses | 4,311,537 | 570,000 | 4,881,537 |
| Changes that relate to past service | 1,413,242 | (469,000) | 944,242 |
| **Insurance service expenses** | 5,724,779 | 101,000 | 5,825,779 |
| **Insurance service result before reinsurance contracts held** | 5,724,779 | 101,000 | 5,825,779 |
| Finance expense from insurance contracts issued | 357,000 | | 357,000 |
| **Net insurance financial result** | 357,000 | - | 357,000 |
| **Total amounts recognised in statement of profit or loss** | 6,081,779 | 101,000 | 6,182,779 |
| **Exchange differences** | - | | - |
| Claims and other directly attributable expenses paid | (4,306,806) | | (4,306,806) |
| **Total cash flows** | (4,306,806) | - | (4,306,806) |
| **At 31 December 2023** | 9,607,730 | 2,243,000 | 11,850,730 |

### 19 Insurance liabilities and reinsurance assets (continued)

iii) Reconciliation of the asset for remaining coverage

| | Excluding loss recovery component £ | Loss recovery component £ | Total £ |
|---|---|---|---|
| **At 1 January 2022** | **5,457,416** | | **5,457,416** |
| Allocation of reinsurance premiums | **(9,835,740)** | | **(9,835,740)** |
| **Net expense/(income) from reinsurance contracts** | **(9,835,740)** | **-** | **(9,835,740)** |
| **Total amounts recognised in statement of profit or loss** | **(9,835,740)** | **-** | **(9,835,740)** |
| Premiums paid | **10,090,667** | | **10,090,667** |
| **Total cash flows** | **10,090,667** | **-** | **10,090,667** |
| **At 31 December 2022** | **5,712,343** | **-** | **5,712,343** |
| Allocation of reinsurance premiums | **(10,555,981)** | | **(10,555,981)** |
| **Net expense/(income) from reinsurance contracts** | **(10,555,981)** | **-** | **(10,555,981)** |
| **Total amounts recognised in statement of profit or loss** | **(10,555,981)** | **-** | **(10,555,981)** |
| Premiums paid | **9,703,739** | | **9,703,739** |
| **Total cash flows** | **9,703,739** | **-** | **9,703,739** |
| **At 31 December 2023** | **4,860,100** | **-** | **4,860,100** |

**19 Insurance liabilities and reinsurance assets (continued)**

iv) Reconciliation of the asset for incurred claims

| | Estimates of present value of future cash flows £ | Risk adjustment for non-financial risk £ | Total £ |
|---|---|---|---|
| **At 1 January 2022** | **5,628,206** | **1,304,000** | **6,932,206** |
| Recoveries of incurred claims and other insurance service expenses | 5,249,705 | 368,000 | 5,617,705 |
| Changes that relate to past service | (225,690) | (793,000) | (1,018,690) |
| **Net expense/(income) from reinsurance contracts** | **5,024,015** | **(425,000)** | **4,599,015** |
| Finance expense from reinsurance contracts held | (612,000) | | (612,000) |
| **Net insurance financial result** | **(612,000)** | **-** | **(612,000)** |
| **Total amounts recognised in statement of profit or loss** | **4,412,015** | **(425,000)** | **3,987,015** |
| Amounts received | (5,204,060) | | (5,204,060) |
| **Total cash flows** | **(5,204,060)** | **-** | **(5,204,060)** |
| **At 31 December 2022** | **4,836,161** | **879,000** | **5,715,161** |
| Recoveries of incurred claims and other insurance service expenses | 4,509,502 | 570,000 | 5,079,502 |
| Changes that relate to past service | 1,792,403 | (322,000) | 1,470,403 |
| **Net expense/(income) from reinsurance contracts** | **6,301,905** | **248,000** | **6,549,905** |
| Finance income from reinsurance contracts held | 254,000 | | 254,000 |
| **Net insurance financial result** | **254,000** | **-** | **254,000** |
| **Total amounts recognised in statement of profit or loss** | **6,555,905** | **248,000** | **6,803,905** |
| Amounts received | (4,437,168) | | (4,437,168) |
| **Total cash flows** | **(4,437,168)** | **-** | **(4,437,168)** |
| **At 31 December 2023** | **6,954,899** | **1,127,000** | **8,081,899** |

**19 Insurance liabilities and reinsurance assets (continued)**

(v) Reserving methodology

Reserving for non-life 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 the chain ladder, Bornhuetter-Ferguson and average cost methods.

Chain ladder methods extrapolate paid amounts, incurred amounts (paid claims plus case estimates) and 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 or average cost 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. The average weighted term to payment is calculated separately by class of business and is based on historical settlement patterns.

(vi) Confidence level of risk adjustment

To reflect the uncertain nature of the outcome of the ultimate settlement cost of claims, an uncertainty margin is added to the best estimate. The addition for uncertainty is assessed using actuarial methods including the Mack method and Bootstrapping techniques, based on at least the 75th percentile confidence level. For smaller reserving classes, where these methods cannot be applied, provisions are calculated at a level intended to provide an equivalent probability of sufficiency. Where the standard methods cannot allow for changing circumstances, additional uncertainty margins are added and are typically expressed as a percentage of outstanding claims. From time to time, management may elect to select an additional margin to reflect short-term uncertainty driven by specific events that are not in data. 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 parts (ii) and (iv) of the note.

(vii) Calculation of provisions for latent claims

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

(viii) Discounting

| | Discount rate | | Mean term of discounted liabilities (years) | |
|---|---|---|---|---|
| **Geographical territory** | **2023** | **Restated* 2022** | **2023** | **Restated* 2022** |
| UK | **4.0% to 5.3%** | **3.6% to 5.4%** | 6 | 5 |

*The comparative financial statements have been restated as detailed in note 24.

The above rates of interest are based on government bond yields of the relevant currency and term at the reporting date. Adjustments are made, where appropriate, to reflect the illiquidity of the liabilities. At

### 19 Insurance liabilities and reinsurance assets (continued)

the year end the undiscounted gross outstanding claims liability was £14,420,730 (2022 restated: £12,398,757).

The impact of discount rate changes on the outstanding claims liability is presented within net investment return (note 7).

(ix) Assumptions

The Company follows a process of reviewing its reserves for outstanding claims on a regular basis. This involves an appraisal of each reserving class 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 is subject to an internal peer review and management sign-off process.

The most significant assumptions in determining the undiscounted 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 the terms of the reinsurance treaties, the anticipated time taken to settle a claim and the incidence of large individual and aggregated claims.

(x) Changes in assumptions

There are no significant changes in approach but we continue to evolve estimates in light of underlying experience.

(xi) Sensitivity of results

The ultimate amount of claims settlement is uncertain and the Company's aim is to reserve to at least the 75th percentile confidence level. The following table illustrates the sensitivity to changes in the level of claims in the principal segments of the business.

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

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | **Gross £** | **Net £** | **Gross £** | **Net £** |
| Liability | 490,000 | 490,000 | 370,000 | 370,000 |
| Property | 460,000 | 210,000 | 320,000 | 180,000 |

### 19 Insurance liabilities and reinsurance assets (continued)

(xii) 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. Net liability for the periods covered in the table is zero as all business in these periods is 100% reinsured. A net liability remains in respect of earlier periods.

MIC Claims Development

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Estimate of ultimate claims: | | | | | | | | | | | |
| At end of year | 5,158 | 7,472 | 3,765 | 3,666 | 4,757 | 4,169 | 2,979 | 4,826 | 4,558 | 6,078 | |
| One year later | 4,064 | 6,667 | 2,953 | 3,689 | 4,338 | 3,825 | 2,412 | 4,296 | 4,479 | | |
| Two years later | 3,596 | 5,858 | 2,488 | 3,278 | 3,427 | 3,253 | 2,260 | 4,125 | | | |
| Three years later | 3,547 | 5,539 | 2,354 | 2,954 | 3,446 | 3,165 | 2,419 | | | | |
| Four years later | 3,413 | 5,238 | 2,303 | 2,871 | 3,455 | 3,133 | | | | | |
| Five years later | 3,374 | 5,256 | 2,239 | 2,843 | 3,406 | | | | | | |
| Six years later | 3,376 | 5,421 | 2,237 | 2,805 | | | | | | | |
| Seven years later | 3,374 | 4,707 | 2,212 | | | | | | | | |
| Eight years later | 3,375 | 4,722 | | | | | | | | | |
| Nine years later | 3,360 | | | | | | | | | | |
| Current estimate of ultimate claims | 3,360 | 4,722 | 2,212 | 2,805 | 3,406 | 3,133 | 2,419 | 4,125 | 4,479 | 6,078 | 36,739 |
| Cumulative payments to date | (3,261) | (4,390) | (2,114) | (2,709) | (3,198) | (2,928) | (1,945) | (3,754) | (3,034) | (1,105) | (28,438) |
| Outstanding liability | 99 | 332 | 98 | 96 | 208 | 204 | 474 | 371 | 1,445 | 4,973 | 8,302 |
| Effect of Discounting | | | | | | | | | | | (985) |
| Present Value | | | | | | | | | | | 7,317 |
| Discounted liability in respect of earlier years | | | | | | | | | | | 4,534 |
| Total discounted gross liability | | | | | | | | | | | 11,851 |
| Reinsurers' share of contract provisions | | | | | | | | | | | (8,082) |
| Total discounted net liability included in insurance liabilities in the statement of financial position | | | | | | | | | | | 3,769 |

### 20 Other Payables

| | 2023 £ | 2022 £ |
|---|---|---|
| Other creditors | 420,993 | 445,553 |
| Amounts owed to related parties - Subsidiaries | 998 | 998 |
| Accruals and deferred income | 211,563 | 167,896 |
| Derivative liabilities | 14,869 | 125,413 |
| | 648,423 | 739,860 |
| Current | 647,425 | 738,862 |
| Non-current | 998 | 998 |

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

Subsidiaries are Methodist Insurance Services Limited.

### 21 Related party transactions

The Company has a reinsurance treaty with EIO whereby all post 1998 business accepted by the Company is fully reinsured with EIO with the exception of terrorism cover which is reinsured through a third party. 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 EIO under which all administration expenses are borne by EIO.

The Company ceded premiums net of claims paid and commissions to the value of £7,143,139 (2022: £7,253,414) during the year to EIO, which also bore expenses of the Company's business of £2,336,783 (2022: £2,384,000). The reinsurers' share of technical provisions due from EIO as at 31 December 2023 is £12,941,999 (2022: £11,427,504) which consists of £6,509,795 (2022: £6,331,143) of unearned premium and £6,432,204 (2022: £5,096,361) of outstanding claims. At 31 December 2023 £1,647,245 was due to EIO (2022: £637,179).

Information about key management personnel compensation is provided in note 9 to the financial statements.

Transactions and services with related parties are made on commercial terms. During the year the Company had a letter of credit with EIO in respect of reinsurance amounts recoverable for £2,000,000. This was renewed in November 2023. 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.

At 31 December 2023, £998 was due to Methodist Insurance Services Limited (2022: £998).

### 22 Subsidiary undertakings

The Company's interest in subsidiary undertakings at 31 December 2023 is as follows:

| | Share Capital | Holding |
|---|---|---|
| Methodist Insurance Services Limited | Ordinary shares | 99.8% |

The proportion of ownership rights equals the voting rights. The subsidiary is incorporated in England and Wales, is dormant, having not traded since incorporation, and is not material to the Company's accounts.

### 23 Reconciliation of Alternative Performance Measures

The Company uses alternative performance measures (APMs) in addition to the figures which are prepared in accordance with IFRS. The financial measures in our key financial performance data include gross written premiums and the combined operating ratio (COR). These measures are commonly used in the industries we operate in and we believe they provide useful information and enhance the understanding of our results.

Users of the accounts should be aware that similarly titled APM reported by other companies may be calculated differently. For that reason, the comparability of APM across companies might be limited.

The tables below provide a reconciliation of the gross written premiums, net written premiums and the combined operating ratio to their most directly reconcilable line items in the financial statements.

| | | 2023<br>£ |
|---|---|---|
| **Gross written premiums** | | 10,801,106 |
| Change in the gross unearned premium provision | | (178,653) |
| Instalment Handling Charge | | 1,842 |
| **Insurance revenue** | [1] | **10,624,295** |
| **Net written premiums** | | |
| Outward reinsurance premiums written | | 10,801,106 |
| Change in the gross unearned premium provision | | (178,653) |
| Instalment Handling Charge | | 1,842 |
| **Insurance revenue** | [1] | **10,624,295** |

## 23 Reconciliation of Alternative Performance Measures (continued)

| | | 2023 | | | | |
|---|---|---|---|---|---|---|
| | | General insurance | Investment return | Corporate costs | Other income and charges | **Total** |
| | | £ | £ | £ | £ | **£** |
| **Revenue** | | | | | | |
| Insurance Revenue | [1] | 10,624,295 | - | - | - | **10,624,295** |
| Insurance service expenses | | (5,880,977) | - | - | - | **(5,880,977)** |
| Insurance service result before reinsurance contracts held | | 4,743,317 | - | - | - | **4,743,317** |
| Net expense from reinsurance contracts | | (4,006,076) | - | - | | **(4,006,076)** |
| **Insurance service result** | | 737,241 | - | - | - | **737,241** |
| Net insurance financial result | | - | (103,000) | - | - | **(103,000)** |
| Net investment result | | - | 1,286,528 | - | - | **1,286,528** |
| Other operating expenses | | - | (110,204) | (103,539) | (500,000) | **(713,743)** |
| **Profit before tax** | [2] | **737,241** | **1,073,325** | **(103,539)** | **(500,000)** | **1,207,027** |

| | | |
|---|---|---|
| **Reconciliation to net earned premiums** | | |
| **Insurance Revenue** | [1] | **10,624,295** |
| Change in the gross unearned premium provision | | 178,653 |
| Instalment Handling Charge | | - |
| **Gross earned premiums** | [3] | **10,802,947** |
| **Gross combined operating ratio = ( [3] - [2] ) / [3]** | | **93.2%** |

## 23 Reconciliation of Alternative Performance Measures (continued)

| | | 2022 £ |
|---|---|---|
| **Gross written premiums** | | 10,427,630 |
| Change in the gross unearned premium provision | | (511,606) |
| Instalment Handling Charge | | 4,288 |
| Bad Debt Expense | | 3,924 |
| **Insurance revenue** | [1] | **9,924,236** |
| **Net written premiums** | | - |
| Outward reinsurance premiums written | | 10,427,630 |
| Change in the gross unearned premium provision | | (511,606) |
| Instalment Handling Charge | | 4,288 |
| Bad Debt Expense | | 3,924 |
| **Insurance revenue** | [1] | **9,924,236** |

| | | 2022 | | | | |
|---|---|---|---|---|---|---|
| | | General insurance | Investment return | Corporate costs | Other income and charges | **Total** |
| | | £ | £ | £ | £ | **£** |
| **Revenue** | | | | | | |
| Insurance Revenue | [1] | 9,924,236 | - | - | - | **9,924,236** |
| Insurance service expenses | | (2,654,789) | - | - | - | **(2,654,789)** |
| Insurance service result before reinsurance contracts held | | 7,269,447 | - | - | - | **7,269,447** |
| Net expense from reinsurance contracts | | (5,236,725) | - | - | | **(5,236,725)** |
| **Insurance service result** | | 2,032,722 | - | - | - | **2,032,722** |
| Net insurance financial result | | - | 478,000 | - | - | **478,000** |
| Net investment result | | - | (2,498,473) | - | - | **(2,498,473)** |
| Other operating expenses | | (3,924) | (121,752) | (99,990) | (5,250) | **(230,916)** |
| **Profit/(loss) before tax** | [2] | **2,028,798** | **(2,142,226)** | **(99,990)** | **(5,250)** | **(218,667)** |

| | | |
|---|---|---|
| **Reconciliation to net earned premiums** | | |
| **Insurance Revenue** | [1] | **9,924,236** |
| Change in the gross unearned premium provision | | (511,606) |
| Instalment Handling Charge | | - |
| **Gross earned premiums** | [3] | **9,412,629** |
| **Gross combined operating ratio = ( [3] - [2] ) / [3]** | | **75.8%** |

### 23 Reconciliation of Alternative Performance Measures (continued)

The underwriting profit of the Company is defined as the operating profit of the general insurance business. The Company uses gross combined operating ratio as a measure of underwriting efficiency. The COR expresses the total of net claims costs, commission and underwriting expenses as a percentage of gross earned premiums. It is calculated as ( [3] - [2] ) / [3].

### 24 Prior year restatement

### IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts replaces IFRS 4 Insurance Contracts. The Company adopted IFRS 17 from 1 January 2023 and has restated 2022 comparatives. The transitional provisions within IFRS 17 have been applied. The effect of changes to accounting policies as a result of adopting IFRS 17 are set out below.

**(i) Transition**
The Company has used the fully retrospective approach (FRA). On 1 January 2022, the transition date to IFRS 17, the Company identified, recognised and measured each group of non-life insurance contracts as if IFRS 17 had always applied, derecognised any existing balances that would not exist had IFRS 17 always applied and recognised any resulting net difference in equity.

On transition to IFRS 17 on 1 January 2022, the Company's equity was positively impacted by £305k after tax, primarily due to changes that apply IFRS 17 principles to reserving for general insurance liabilities. IFRS 17 also results in presentation changes as described below.

The following shows the impact of IFRS 17 on the Company’s balance sheet on transition:

| | As reported 31 December 2022 £ | Impact of IFRS 17 £ | As restated 31 December 2022 £ |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 6,049,277 | - | **6,049,277** |
| Financial investments | 17,004,529 | 7 | **17,004,535** |
| Current tax recoverable | 9,646 | - | **9,646** |
| Reinsurance contract assets | 13,770,692 | (2,343,189) | **11,427,504** |
| Other assets | 1,963,479 | (1,848,661) | **114,818** |
| **Total assets** | 38,797,623 | (4,191,843) | **34,605,780** |
| **Liabilities** | | | |
| Insurance contract liabilities | 18,851,166 | (4,376,269) | **14,474,897** |
| Other liabilities | 1,376,308 | (636,448) | **739,860** |
| **Total liabilities** | 20,227,474 | (5,012,717) | **15,214,757** |
| **Net Assets** | 18,570,149 | 820,874 | **19,391,024** |
| **Equity** | | | |
| Retained Earnings | 18,457,649 | 820,874 | **19,278,524** |
| Share Capital | 112,500 | - | **112,500** |
| **Total Equity** | 18,570,149 | 820,874 | **19,391,024** |

**24 Prior year restatement (continued)**

| | As reported 1 January 2022 £ | Impact of IFRS 17 £ | As restated 1 January 2022 £ |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 2,654,314 | - | **2,654,314** |
| Financial investments | 21,491,581 | - | **21,491,581** |
| Current tax recoverable | 9,646 | - | **9,646** |
| Reinsurance contract assets | 13,413,742 | (1,024,120) | **12,389,622** |
| Other assets | 1,575,140 | (1,491,132) | **84,008** |
| **Total assets** | 39,144,423 | (2,515,252) | **36,629,171** |
| **Liabilities** | | | |
| Insurance contract liabilities | 18,941,769 | (2,437,692) | **16,504,077** |
| Other liabilities | 897,962 | (382,746) | **515,216** |
| **Total liabilities** | 19,839,731 | (2,820,438) | **17,019,293** |
| **Net Assets** | 19,304,692 | 305,186 | **19,609,878** |
| **Equity** | | | |
| Retained Earnings | 19,192,192 | 305,186 | **19,497,378** |
| Share Capital | 112,500 | - | **112,500** |
| **Total Equity** | 19,304,692 | 305,186 | **19,609,878** |

**(ii) Changes to classification and measurement**

The adoption of IFRS 17 did not change the classification of the Company's insurance contracts. However, IFRS 17 establishes specific principles for the recognition and measurement of insurance and reinsurance contracts. IFRS 17 introduces a GMM that bases the measurement of a group of contracts on the present value of future cash flows with a risk adjustment for non-financial risk and a CSM representing unearned profit recognised in profit or loss over the period insurance service is provided (the coverage period). Entities have the option to use a simplified measurement model, the PAA, for short-duration contracts; this model is applicable to all the Company's general insurance and reinsurance contracts either through the parameters of the contracts, or via eligibility testing.

**24 Prior year restatement (continued)**

IFRS 17 accounting under the PAA is similar to IFRS 4, but differs as follows:

- The identification of groups of onerous contracts is done at a more granular level than liability adequacy tests performed under IFRS 4. Under IFRS 17, the loss component of onerous contracts measured based on projected profitability is recognised immediately in profit or loss, potentially resulting in earlier recognition compared to IFRS 4.
- The liability for incurred claims includes an explicit risk adjustment. The Company's approach to IFRS 4 risk margins reflected reserving risk appetite considering the inherent uncertainty in the claim liabilities estimates, whereas the IFRS 17 risk adjustment more explicitly requires consideration of the compensation required for bearing the uncertainty that arises from non-financial risk. As with risk margins, the risk adjustment includes any benefit of diversification considered by the entity.

**(iii) Changes to presentation and disclosure**

IFRS 17 provides specific guidance for the presentation and disclosures of insurance and reinsurance contracts. Groups of insurance contracts issued that are either asset or liabilities, and groups of reinsurance contracts held that are either assets or liabilities are presented separately in the statement of financial position. The presentation of insurance revenue and expenses within the statement of profit of loss is based on the concepts of insurance services being provided during the period.

***Statement of profit or loss***

Changes introduced by IFRS 17 require separate presentation of insurance revenue, insurance service expenses and net insurance financial result. Gross written premiums, outward reinsurance premiums, net change in provision for unearned premium, net earned premiums, claims and change in insurance liabilities and reinsurance recoveries are no longer disclosed.

***Statement of financial position***

IFRS 17 introduces changes to the statement of financial position. Previous line items insurance contract liabilities, deferred acquisition costs and insurance debtors and creditors included within other assets and liabilities are now presented together within insurance contract liabilities. Previously reported reinsurers' share of contract liabilities and reinsurance debtors and creditors within other assets and liabilities are presented together within reinsurance contract assets.

***IFRS 9 Financial instruments***

The Company adopted IFRS 9 Financial instruments on 1 January 2023. The comparative information was not restated and continues to be reported under IAS 39 Financial instruments.

The following table summarises the classification and measurement impacts of IFRS 9 on transition:

| | Measurement category | | Carrying amount | | |
|---|---|---|---|---|---|
| **Financial assets and liabilities** | **Original (IAS 39)** | **New (IFRS 9)** | **As previously reported (IAS 39) £** | **Impact of IFRS 9 £** | **New (IFRS 9) £** |
| Equity securities | FVTPL | FVTPL | 9,957,328 | - | 9,957,328 |
| Debt securities | FVTPL | FVTPL | 578,543 | - | 578,543 |
| Other payables | Loans and receivables | Amortised cost | 739,860 | - | 739,860 |
| Other receivables | Loans and receivables | Amortised cost | 114,818 | - | 114,818 |
| Cash and cash equivalents | Loans and receivables | Amortised cost | 6,049,277 | - | 6,049,277 |

### 24 Prior year restatement (continued)

The reclassifications of the financial instruments on adoption of IFRS 9 did not result in any changes to measurements.