



Annual Report 2019

REGISTRATION NUMBER: 00006369

METHODIST INSURANCE PLC

REPORT AND ACCOUNTS 31 DECEMBER 2019

Methodist Insurance PLC

Report and Accounts 31 December 2019

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

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

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

Methodist Insurance PLC

Officers and company information

Directors	A. G. Gibbs MA, FCA <i>Interim Chairman</i> C. H. Boothman, FRICS <i>Deputy Chairman</i> M. G. Angell ACII Revd. L. J. Barriball J. M. Coates ACII D. M. Crompton ACII Revd. P. H. Davis BA J. M. Hamilton BSc (Econ), FIA D. A. Rees
Company Secretary	Mrs R. J. Hall FCIS
CEO	M. G. Angell ACII
Auditor	Ernst and Young LLP
Bankers	National Westminster Bank PLC
Registered Office	Beaufort House, Brunswick Road, Gloucester, GL1 1JZ
Head Office	St. Ann's House St. Ann's Place Manchester, M2 7LP Tel: 0161 833 9696 Fax: 0161 833 1287
Company Registration Number	00006369

Directors' Biographies

A. G. Gibbs MA, FCA Interim Chairman

Chair of Investment Committee, Audit, Risk and Compliance Committee member

First appointed to the Board in 1991

After graduating from Cambridge University, Andrew qualified as a chartered accountant in 1971 and spent four years working for Save the Children in Bangladesh and the Methodist Church in Côte d'Ivoire. On return to the UK he worked in investment management for the Church of England and Charities. He retired as Chief Executive of CCLA Investment Management in 2005. Andrew has been involved in the Methodist Church locally and nationally, having completed a six year term as Connexional Treasurer.

C. H. Boothman, FRICS Deputy Chairman

Chair of Audit, Risk and Compliance Committee, Investment Committee member

First appointed to the Board in 1993

Appointed to the Board as a property valuation consultant. Colin is a lifelong Methodist, a retired Fellow of the Royal Institute of Chartered Surveyors and was a partner in Gleeds Construction Consultants responsible for the North West and latterly regional director for the Asia Pacific business. Former governor of Altrincham Grammar School and chair of the Development Company.

M. G. Angell ACII

Chief Executive Officer

First appointed to the Board in 2015

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

Revd. L. J. Barribal

Audit, Risk and Compliance Committee member

First appointed to the Board in 2005

Superintendent Minister of Camelford and Week St Mary Methodist Circuit. Her specialties include building projects and grant making in local churches as part of Mission and Ministry in developing church life. Her background was in accountancy and business management before becoming a Methodist Minister.

J. M. Coates ACII

Business and Development Committee member

First appointed to the Board in 2009

John is a chartered insurer and worked most recently as director of Church operations for Ecclesiastical Insurance Office plc before he retired in 2015 and was appointed a non-executive director. He is an Honorary Lay Canon at Gloucester Cathedral, a member of The Dean and Chapter and a Director of Gloucester Cathedral Enterprises Ltd.

D. M. Crompton ACII

Business and Development Committee member

First appointed to the Board in 2009

David is a Chartered Insurance Broker and an associate of the Chartered Insurance Institute. He is owner and managing director of an insurance broking company. David has a lifelong involvement with the Methodist Church and serves both his local Methodist Church and Circuit in various positions.

Revd. P. H. Davis BA

Chair of Business and Development Committee

First appointed to the Board in 2006

Paul has served as Chair of the Lancashire District of the Methodist Church since 2013. Previously he has served in five circuits in Lancashire and the Midlands. For many years he served as a Superintendent Minister. Within his ministry he has always been interested in how Methodist property can be best used to fulfil the churches calling for Worship, Service, Learning and Evangelism. For the Connexional Methodist Church he sits on the board of Trustees. Away from ministry activities he enjoys regular visits to the gym, cycling and walking.

Directors' Biographies

J. M. Hamilton BSc (Econ), FIA

Audit, Risk and Compliance Committee member, Investment Committee member

First appointed to the Board in 2005

Malcolm is a lifelong Methodist and has held various positions in local churches and circuits, together with some years as director of Epworth Investment Management. He is also a Trustee and Director of Carers Trust Solihull.

D. A. Rees

Member of the Investment Committee

First appointed to the Board in 2018

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

Methodist Insurance PLC

Chairman's Statement

Chairman's review of business operations

2019 was an exceptionally successful year for the Company. We should not expect the record annual profit (before grants and tax) of £5.3 million to recur for many years, if ever.

This very favourable result arose from a positive contribution from each of the three main sources which make up the annual profit. These were,

- Low claims experience during the period, leading to a good profit commission on the year's insurance underwriting.
- The carefully judged release of provisions previously made against possible claims, but that are no longer required.
- The exceptionally high total return on the Company's investments.

And yet in the most important way it was business as usual as the Company continued to strive to provide an excellent service to its customers, aiming to meet both their insurance needs and their expectations when making a claim, or in dealing with our staff.

There were, however, two significant events. The first was in anticipation of the UK's implementation of its decision to leave the European Union. It was with regret that the Board resolved to withdraw in orderly fashion from operating in the Republic of Ireland, because of the cost and regulatory complexities that would arise after the UK had left the EU. Our first concern was for our Irish customers and the solution reached was to arrange to introduce their business to the Ecclesiastical Insurance Office plc (EIO). The introduction will take place in the course of 2020.

The second event was the decision of the Chairman, David Walton, to stand down in November 2019, for personal reasons. David had been on the Board for sixteen years and was Chairman for ten years, during which time he led the Company with vision, professional competence and complete commitment. The time having come for him to stand down, I, as the then Deputy Chairman, succeeded him with the title of interim Chairman. Having been on the Board myself for 28 years and being surrounded by an experienced and well balanced Board, I consider that the principal feature of the change in Chairman will be the lack of change in the conduct of business. Our priority is to ensure that our customers, principally the Churches and Circuits of Methodism, continue to receive the same quality of insurance and related services that they have relied on for many years. As part of this objective we keep under careful review the levels of service offered to our customers and satisfaction surveys reveal that these remain commendably high.

In early 2020, the existence of a new coronavirus, COVID-19, was confirmed. We are managing the impact of COVID-19, using business continuity and risk management processes where appropriate. Our capital resources can withstand significant short-term market disruption. While there is the potential for the outbreak to affect our day to day operations, we believe that we can continue to provide all necessary services to our customers. Serving our customers and the health, safety and well-being of those working for us will be our priorities throughout the outbreak.

Financial results

The detailed financial results show written premium of £10,149,656 (2018: £9,854,513) and an operating profit before grants and tax of £5,290,754 (2018: £1,014,605). This is made up of a positive result on underwriting of £2,223,895 (2018: £1,662,433) complemented by an investment return of £3,061,859 (2018: loss £647,828).

Capital Adequacy

At 31 December 2019, as has been the case for many years, the Company's capital position remained very strong with 'Own Funds' for Solvency II purposes of £18,308,000 (2018: £18,213,000). All the prescribed capital requirements were comfortably exceeded.

Year End Provisions

The Board has a substantial provision in place for historic claims that precede the Joint Administration Agreement. It is the Board's duty to ensure that the provision that the Company has made for claims, including those that may have been incurred but not reported, is appropriate. We are helped in this by our independent Actuary. The current reserves relating to our past liabilities amount to £8,310,854. In 2019, it was decided to reduce the provision by £291,057, and this reduction forms part of the underwriting profit for the year.

Investments

The Company's financial investments and the cash available for long term investment are managed by Sarasin & Partners, who are given discretion in the choice of investments and in asset allocation within parameters set and varied periodically by the Board. In consultation with the Investment Managers, the Board decided in 2019 to combine the UK equity and Overseas equity parts of the portfolio into a single class, namely, global equities, using a corresponding market index for performance measurement, with effect from 1 January 2020. In 2019 the performance of the managers was measured against the then prevailing asset allocation and market indices. Against these indices, the overall performance during the year was decidedly positive.

In 2019 the value of the financial investments increased to £20,884,047 (2018: £19,446,299). UK equities rose by 19.2% over the year and global equities by 21.7% while conventional gilts rose by 7.0%. The overall investment return, inclusive of investment income and capital appreciation and net of investment expenses, was £3,061,859, a positive return of 15.0% for the year.

Asset Allocation

At the year end, considering the funds held by the Investment Manager, 34% was invested in bonds (chiefly short and medium dated conventional and index linked gilts, together with some corporate and overseas bonds), 55% in global equities (27% in UK equities, 28% in global equities) and 11% in cash and other investments.

Rolling three year return

The Company aims to secure a positive return on its investments, expressed as the average annual net return after expenses over rolling three year periods. Despite a negative return in 2018, the average return for the last three calendar years to 31 December 2019 has been positive at 6.4% p.a.

Methodist Insurance PLC

Chairman's Statement

Joint Administration Agreement

At the heart of the operation of the Company lies the Joint Administration Agreement with EIO. The Board is satisfied that this arrangement, first entered into in 1998 and reviewed and revised in 2016, is working well. It recognises that the future success of the Company depends on the continuing satisfactory implementation of the terms of the Agreement.

Auditors

KPMG have been the auditors of the Company for 33 years. We have been entirely satisfied with the service that they have provided us. In view of this long association and after a review in accordance with current best practice, however, the Board has decided to appoint Ernst & Young to replace them.

Grants

Following the company's strong performance we have been able to pay grants totalling £5,005,000 (2018: £1,505,000) resulting in a net profit before tax of £285,754 (2018: loss £490,395).

A grant of £5 million was made to a designated fund within the Allchurches Trust, which is then available for use in support of property, specific and general purposes within the Methodist Churches in Great Britain and Ireland. The Allchurches Trust has constituted a Committee to administer this Fund, which has now been operating satisfactorily since 2016.

We also made a donation of £5,000 to South Yorkshire Community Foundation, which coordinated the support and relief provided to the victims of the severe flooding in that area.

Thanks

We thank our retiring Auditors, KPMG, for their long service to our Company.

We are grateful to all the administration staff in Manchester and Gloucester who continue to provide the Company with such a high standard of service, and who receive consistent praise from our customers. Especial thanks are due to Michael Angell (our CEO and one of our Directors) and Graham Searle (our CFO) who take considerable personal responsibility as part of the rigorous Senior Managers and Certification Regime of the Financial Conduct Authority.

I would also like to record my appreciation to my fellow directors for their support.

A.G.Gibbs

Interim Chairman on behalf of the Directors

Methodist Insurance PLC

Strategic Report

The directors present their strategic report for the year ended 31 December 2019.

Objective and strategy

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

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

Business model

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

All insurance risks undertaken by the Company since 1998 are reinsured with Ecclesiastical Insurance Office plc (EIO), except eligible terrorism risks which are reinsured with 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 outsourced 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 19. Key performance indicators are included below.

Premium growth

Gross written premiums increased to £10,149,656 (2018: £9,854,513) representing an increase of 3.0% on the previous year. Premium increase can be attributed to indexation increases and the overall impact of inflation.

Claims ratio

Our claims ratio (incurred claims to earned premiums) of 24.4% (2018: 41.2%) shows a 16.8 point decrease on the previous year. The key driver for this variance has been lower claims due to the benign weather experienced in the year compared to 2018.

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 £2,141,141 (2018: £1,784,350) with the key driver being claims performance in both years.

Investment return

Following the increase of the FTSE 100 index during 2019, compared to a decrease in 2018, the Company's underlying investments delivered a positive return. The Company continues to monitor and review the investment strategy to ensure a balance between potential reward and future losses. The net investment return was a profit of £3,061,859 (2018: loss of £647,827).

Grants

The aim of the Company and the directors continues to be to support Methodist organisations. During 2019 charitable grants of £5,005,000 (2018: £1,505,000) were paid. This sum is largely made available as grants 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 £285,754 (2018: loss £490,395). After the impact of tax and dividends, the amount of retained earnings has increased by £294,832 (2018: £461,275 decrease). The Company remains well capitalised as examined in note 4.

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

Strategic Report

Principal risks and uncertainties

The principal risks and uncertainties are:

- There is uncertainty regarding the impact of Brexit and the wider economic impacts that it could have. The Company considers that the only impact on the underwriting business is the ability to write premiums in the Republic of Ireland, the value of which are described in note 3, page 31. These represent less than 5% of the gross written premiums in 2019 and 2018. The Company has agreed to introduce EIO to its customers, so as to enable EIO to offer to renew the relevant Republic of Ireland policies at an arm's length market price, effective from the date the UK left the EU. It is also noted that there is greater equity price risk with regard to the investment portfolio if Brexit leads to greater market volatility.
- the Company has adverse development protection cover from EIO in relation to pre-1998 claims. The Company is exposed to the risk of claims being incurred above the current level of provisions, up to the point at which the reinsurance cover takes effect;
- the impact on profit commission if there are underwriting losses or significantly adverse claims experience. This is disclosed further under note 3 – Insurance risk;
- investment returns and the security of the investment portfolio. Financial risk is discussed in more detail in note 4 - Financial risk and capital management; and
- the reliance on EIO from an operational perspective. This is highlighted further in note 4.
- Climate change presents increasing levels of risk to both the Company and to the customers. The greatest impacts of these risks are expected to materialise in the medium to long-term, however, the actions to be taken to mitigate and manage these risks for both the short and longer term are being developed. The potential exposures for the Company include transition risk, primarily related to the investment portfolio, and physical risk affecting the insurance risks that are written. Michael Angell has been allocated SMF responsibility holder for managing climate
- The COVID-19 pandemic has created an additional and unexpected uncertainty to the business during 2020. The risks arising from this have been assessed and are being carefully monitored as they develop. Whilst we expect the investment markets to show increased volatility throughout and following the outbreak, there is not expected to be any significant adverse impact on the operations of the business, and the solvency, liquidity and financial outlook of the Company remain sufficient to withstand the pandemic.

Non-financial information statement

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

Section 172 Statement

This section of the Strategic Report describes how the directors have had regard to the matters set out in section 172(1) (a) to (f), and forms the directors' statement required under section 414CZA, of the Companies Act 2006.

The Directors recognise that the long-term success of the Company is dependent on having regard to the interests of its stakeholders. The Board has identified and documented its stakeholders in the Company's Governance Framework and Board Charter. Key stakeholders include its shareholders, customers and Methodist Community, Ecclesiastical Insurance Office PLC, Suppliers and Regulators. Stakeholder engagement is considered as part of the decision making process of the Board. Given the new disclosure requirements, board and committee papers templates were updated to better focus on stakeholder interest.

The Board recognises the importance of engaging with stakeholders, understanding their views and interests in order to be successful over the long-term. Dialogue with stakeholders can help the Board to understand significant changes in the landscape, predict future developments and trends, and re-align strategy.

Shareholders

The Board is responsible to its shareholders for the long-term success of the Company. The interests of the Company and its Shareholders are aligned with the common purpose of benefiting the Methodist community. There is a Conflicts of Interest Policy in place to manage any actual and perceived conflicts should they arise.

There are open channels of communication between the Company and its Shareholders. The Directors regularly meet with its shareholders both through formal and informal means, including at its Annual General Meeting, and annual lunch for ex-staff and pensioners (to which shareholders are also invited).

Strategic Report

Customers and Methodist Community:

The Company has a strong reputation for delivering outstanding customer service. The Board regularly receive updates and actively challenge management on the delivery of the Customer Strategy. All Board members receive a copy of the Company's Business Report monthly, which documents "Operational Excellence" specifically noting customer satisfaction scores and any complaints handling data. Members of the Board actively engage with its customer base, including attendance at the annual Methodist Conference.

Ecclesiastical Insurance Office PLC:

Day to day management services are provided by EIO on the Company's behalf under the terms of the Joint Administration Agreement ("JAA"), therefore the Company has no employees.

EIO are 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. The 2019 Effectiveness review of the JAA rated all areas operating under it as effective.

Various members of EIO's management team are invited to attend Board meetings. Mark Hews, Group Chief Executive Officer (CEO) of EIO is invited to attend the Company's Annual General Meeting (AGM) and also provides an annual update on EIO's strategic position to the Board. The Chairman of the Board regular meets with Mark Hews to review and ensure the continued strategic alignment. The Board of Directors invites members of EIO staff to attend a lunch at which EIO encourages open and honest dialogue.

Other suppliers

The importance of the role that suppliers play in ensuring a reliable service is delivered to customers is recognised by the Directors. Consequently, the EIO Group Risk Committee oversees the Procurement, Purchasing and Outsourcing Policy, in accordance with the JAA on behalf of the Directors; providing updates to the Board as required.

Regulators

The Board recognises the importance of open and honest dialogue with regulators (including the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority ("PRA")). The Board (via its Committees) has received regular updates on legal, regulatory and compliance matters.

Community and environment

The Directors have considered an initial plan to address climate change requirements. Moreover, recognising the importance climate change, the Board agreed to add it as a separate risk to the Company's Risk Register.

Additionally, the Board allocated SMF responsibility for managing Climate Change risk on behalf of the Company to Michael Angell, CEO.

By order of the board

Mrs R. J. Hall
Secretary
12 May 2020

Directors' Report

The directors present their annual report and financial statements for the year ended 31 December 2019.

Future prospects

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

Events after the reporting period

In early 2020, the existence of a new coronavirus, COVID-19, was confirmed. This is covered in detail in note 26 to the financial statements.

Going concern

The Company reinsures all of its current business, except for terrorism cover, with EIO, who also provide administrative services within a profit share arrangement. Therefore, except for investment, credit and counterparty risk, and the adverse development of certain pre-1998 insurance risks, its financial risks are ultimately borne by EIO. The Directors have considered the impact of COVID-19 on the Company which included considering stresses to the solvency and liquidity of the Company for a period of at least 12 months from the date of signing the financial statements. The Directors also considered the impact that COVID-19 has had on the financial and operating capability of EIO. The Directors were satisfied that the stresses were appropriate 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 in the foreseeable future, despite the current uncertain economic outlook. The directors also consider they have provided adequately for risks not reinsured with EIO and, as such, they continue to adopt the going concern basis in preparing the Report and Accounts.

Dividends

The directors recommend the payment of dividends on the amounts paid up on the Company's ordinary shares, for the year ended 31 December 2019, absorbing the sum of £188 (2018: £188). This equates to a dividend of 1p per share (2018: 1p per share).

Political Donations

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

Directors

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

The following Director shall retire by rotation and, being eligible, offers himself for re-election:-

A G Gibbs

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

Directors' responsibilities statement

The directors are responsible for preparing the annual Report and Accounts in accordance with applicable law and regulations.

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

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

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

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.

Directors' Report

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

Auditor and the disclosure of information to the auditor

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

In accordance with Section 489 of the CA 2006, a resolution proposing that Ernst and Young LLP be 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:

Mrs R. J. Hall
Secretary
12 May 2020

Independent Auditor's Report

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

Opinion

We have audited the financial statements of Methodist Insurance plc (“the Company”) for the year ended 31 December 2019 which comprise the Statement of Profit or loss, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows, and the related notes 1 to 25, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the Company’s affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report below. 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors’ use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised

Overview of our audit approach

Key audit matters	<ul style="list-style-type: none">- Valuation of Pre-1998 insurance contract liabilities- Estimates involved in the calculation of profit commission income- Adequate consideration of Covid-19 as an event after the reporting period
Materiality	<ul style="list-style-type: none">- Overall materiality of £344K which represents 2% of net assets.

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.

Independent Auditor's Report

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Valuation of the pre-1998 insurance contract liabilities (value of net outstanding claims £6.9m, 2018: 7.7m)</p> <p><i>Refer to the Accounting policies (page 27); and Note 21 of the Financial Statements (page 42)</i></p> <p>The valuation of insurance contract liabilities is highly judgemental because it requires a number of assumptions to be made with estimation uncertainty in respect of both frequency and severity of claims. Pre-July 1998 claims includes notified and IBNR elements of claims. There is increased uncertainty in the calculation of the Pre-1998 claims due to the inclusion of physical and sexual abuse claims and because there is no reinsurance in place. Post 1998 all insurance contracts are fully reinsured and therefore considered a lower risk.</p>	<p>We performed walkthroughs to understand the claims liability valuation processes and identified key controls in place;</p> <p>In conjunction with our actuarial specialists we challenged the methodology, key assumptions and judgements used by Management, including the key sensitivities and uncertainties in the valuation of the pre-1998 reserves; In particular we:</p> <ul style="list-style-type: none"> - Assessed the MIC methodology and verified the key outputs from the model. We confirmed that this methodology was in line with market practice and that it is appropriate for the size and complexity of the underlying risk exposure. - Reviewed key metrics from the inputs to, and outputs from the valuation models. - Checked assumptions for reasonableness and compared against the MIC recent historical claim experience and against our market benchmarks. - Performed sensitivity testing to the main assumptions to determine the sensitivity of the claims reserves to changes in these parameters. <p>We reviewed Management’s commentary on the change in the reserves for the National Children’s Homes (NCH) and non-NCH portfolios, since 31 December 2018;</p> <p>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;</p> <p>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.</p> <p>We read all legal correspondence and considered any impact on insurance contract liabilities.</p>	<p>We determined that the actuarial assumptions and methodology used by management in the valuation of the pre-1998 insurance contract liabilities are reasonable based on the analysis of experience to date, industry practice and the financial reporting and regulatory requirements.</p>

Independent Auditor's Report

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Estimates involved in the calculation of profit commission income (profit commission £2.2m, 2018: 1.8m)</p> <p><i>Refer to the Accounting policies (page 26); and Note 6 of the Financial Statements (page 38)</i></p> <p>Profit share commission is split 50:50 between EIO and Methodist. The calculation of profit commission is dependent on the net underwriting result, which includes the movement in the net claims provisions during the year. The calculation of IBNR and associated reinsurance recoveries, which requires management judgement, is therefore integral to the commission calculation. Any misstatement in the IBNR and associated reinsurance recoveries would result in an incorrect commission income being reported in the financial statements.</p>	<p>We read the profit share agreement in place to obtain an understanding as to how it should operate;</p> <p>We verified the mathematical accuracy of the calculation performed by management and tied back to the methodology set out in the agreement;</p> <p>We performed testing on the IBNR calculation for accident years 1998 and post; in particular:</p> <ul style="list-style-type: none"> - We reviewed the methodology for reasonableness and identified the key assumptions in the analysis. We audited the reasonableness of those key assumptions by comparing against the MIC recent historical claim experience and against our market benchmarks. - We audited the calculation of reinsurance recoveries on IBNR and checked that this calculation was reasonable given the EIO reinsurance program in place; <p>We obtained a confirmation from EIO for the amount of profit commission for the year</p>	<p>We determined that the profit commission is calculated correctly and based on the agreed terms with EIO.</p>

Independent Auditor's Report

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Adequate consideration of COVID-19 as an event after the reporting period</p> <p>(see note 26 Events after the balance sheet date and note 1 Basis of preparation)</p> <p>The global outbreak of Covid-19 presents operational, market and insurance risks to the Company.</p> <p>Covid-19 is considered to be a non- adjusting post balance sheet event and as such no adjustments have been made to the valuation of assets and liabilities as at 31 December 2019.</p> <p>The Directors have performed an assessment of the impact of Covid-19 on the operations, liquidity and capital position of the Company. Based on these analyses they do not consider that Covid-19 gives rise to a material uncertainty over the going concern of the Company.</p> <p>There is a risk around the appropriateness of modelling performed and that the Directors have drawn inappropriate conclusions regarding the going concern basis and that the disclosures in the financial statements are inadequate or inappropriate.</p> <p>Given the operational reliance on EIO under the Joint Administration Agreement there is also a risk to the Company if the going concern of EIO were to be impacted by Covid-19.</p>	<p>We read, assessed and challenged the Directors' going concern assessment, including their expectation of the impact of Covid-19 on the operations, liquidity and capital position of the Company.</p> <p>In particular:</p> <ul style="list-style-type: none"> - We obtained the liquidity and solvency forecasts prepared by the Company and assessed whether the base forecast was realistic by comparison with historic performance and our understanding of the business. - We obtained and reviewed the Own Risk & Solvency Assessment (ORSA) to understand the impact of the modelled financial market stresses on the company's solvency position. - We challenged whether the alternative scenarios adopted by management for potential changes in premiums, claims and unrealised investment losses due to Covid-19 were appropriate and tested that they had been accurately applied in the liquidity forecasts. - We considered whether management actions identified by the Company were realistically achievable, based on our knowledge of the business. - We considered management's assessment of the operational impact on the business of Covid-19. - We considered management's assessment of the going concern of EIO including the impact of Covid-19 on EIO's operational capability, liquidity and capital position and confirmed the credit rating of EIO. <p>We read the financial statement disclosures in respect of the going concern statement, basis of preparation and the post balance sheet impact of Covid-19 in note 26, to determine whether they were consistent with the results of management's forecasts and in accordance with the requirements of IFRS.</p>	<p>We have concluded that the Directors had an appropriate basis on which to make the assessment that Covid-19 does not give rise to a material uncertainty over the going concern of the Company.</p> <p>We consider that the financial statement disclosures in respect of the impact of Covid-19 are appropriate and consistent with the requirements of IFRS.</p>

Independent Auditor's Report

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, including controls and changes in the business environment when assessing the level of work to be performed.

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 £344K, which is 2% of net assets. (2018: KPMG materiality £117k, which is 1% of Gross written premiums and Commission income). As the Company is distributing charitable grants creating a near break even result for the year, profit before tax is not an appropriate basis and as gross written premium is fully reinsured we consider that the users of the financial statements would focus on the net asset position of the Company as this provides both the regulatory strength of the entity and the ability to continue to make the grants and meet the entity's charitable objectives. Hence, we considered net assets to be the most appropriate basis for setting materiality.

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 50% of our planning materiality, namely £172K. We have set performance materiality at this percentage due to this being a first year of audit.

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 £17K, which is set at 5% of planning materiality, as well as any 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.

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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements 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.

Independent Auditor's Report

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 10, 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

The objectives of our audit:

- in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and
- in respect to irregularities, considered to be non-compliance with laws and regulations, are to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements ('direct laws and regulations'), and perform other audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. We are not responsible for preventing non-compliance with laws and regulations and our audit procedures cannot be expected to detect non-compliance with all laws and

Independent Auditor's Report

Our approach was as follows:

- We obtained a general understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the direct laws and regulations related to elements of company law 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').
- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.
- For both direct and other laws and regulations, our procedures involved: making enquiry of those charged with governance and senior management for their awareness of any non-compliance of 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.
- 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.
- 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 entity, 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 noted above and testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.

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

- 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 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.

Andy Blackmore (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol
Date: 12 May 2020

1. The maintenance and integrity of the Methodist Insurance PLC website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Methodist Insurance PLC

Statement of Profit or Loss

for the year ended 31 December 2019

	Notes	2019 £	2018 £
Revenue			
Gross written premiums	5	10,149,656	9,854,513
Outward reinsurance premiums	5	(10,149,656)	(9,854,513)
Net earned premiums	5	-	-
Commission income	6	2,273,048	1,925,110
Net investment return	7	3,061,859	(647,827)
Total revenue		5,334,907	1,277,283
Expenses			
Claims and change in insurance liabilities	8	(2,435,729)	(4,057,768)
Reinsurance recoveries	8	2,726,786	4,027,176
Commissions and other acquisition costs	9	(91,476)	(89,116)
Other operating and administrative expenses	10	(243,734)	(142,970)
Total operating expenses		(44,153)	(262,678)
Operating profit	11	5,290,754	1,014,605
Charitable grants	14	(5,005,000)	(1,505,000)
Profit/(loss) before tax		285,754	(490,395)
Tax credit	15	9,265	29,307
Profit/(loss) attributable to equity holders		295,019	(461,088)

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

Methodist Insurance PLC

Statement of Comprehensive Income

for the year ended 31 December 2019

	2019	2018
	£	£
Profit/(loss) for the year after tax	295,019	(461,088)
Other comprehensive income, net of tax	-	-
Total comprehensive income for the year	295,019	(461,088)

Methodist Insurance PLC

Statement of Financial Position

at 31 December 2019

	Notes	2019 £	2018 £
Assets			
Financial investments	17	20,884,047	19,446,299
Reinsurers' share of insurance contract liabilities	21	14,314,443	14,654,164
Current tax recoverable		-	3,425
Other assets	18	1,399,929	1,216,565
Cash and cash equivalents	19	2,902,559	5,234,871
Total assets		39,500,978	40,555,324
Equity			
Share capital	20	112,500	112,500
Retained earnings		17,081,342	16,786,511
Total shareholders' equity		17,193,842	16,899,011
Liabilities			
Insurance contract liabilities	21	21,230,015	22,356,968
Deferred tax liabilities	22	27,710	67,584
Current tax liabilities		27,193	-
Other liabilities	23	1,022,218	1,231,760
Total liabilities		22,307,136	23,656,312
Total shareholders' equity and liabilities		39,500,978	40,555,323

The financial statements of Methodist Insurance plc, company registration number 00006369, on pages 19 to 47 were approved and authorised for issue by the Board of Directors on 12 May 2020 and signed on its behalf by:

A.G.Gibbs *Interim Chairman*

M.G.Angell *Director*

Methodist Insurance PLC

Statement of Changes in Equity

for the year ended 31 December 2019

	Share capital £	Retained earnings £	Total £
At 1 January 2018	112,500	17,247,787	17,360,287
Loss for the year	-	(461,088)	(461,088)
Dividends	-	(188)	(188)
At 31 December 2018	<u>112,500</u>	<u>16,786,511</u>	<u>16,899,011</u>
Profit for the year	-	295,019	295,019
Dividends	-	(188)	(188)
At 31 December 2019	<u>112,500</u>	<u>17,081,342</u>	<u>17,193,843</u>

Methodist Insurance PLC

Statement of Cash Flows

for the year ended 31 December 2019

	Notes	2019 £	2018 £
Profit/(loss) before tax		285,754	(490,395)
<i>Adjustments for:</i>			
Net fair value (gains)/losses on financial investments		(2,646,208)	918,112
Income from investments		(561,658)	(551,205)
<i>Changes in operating assets and liabilities:</i>			
Net (decrease)/increase in insurance contract provisions	21	(1,126,953)	331,859
Net decrease/(increase) in reinsurers' share of contract provisions	21	339,721	(463,350)
Net increase in other assets		(186,410)	(82,695)
Net (decrease)/increase in other liabilities		(225,177)	492,395
Cash (used)/generated by operations		(4,120,931)	154,721
Income tax received		-	3,479
Net cash (used by)/from operating activities		(4,120,931)	158,200
Cash flows from investing activities			
Dividends received		373,726	418,192
Interest received		190,988	130,573
Sales of financial investments		8,634,763	6,447,000
Purchases of financial investments		(7,410,670)	(6,089,527)
Net cash from investing activities		1,788,807	906,238
Cash flows from financing activities			
Dividends paid to company's shareholders	16	(188)	(188)
Net cash used by financing activities		(188)	(188)
Net (decrease)/increase in cash and cash equivalents		(2,332,312)	1,064,250
Cash and cash equivalents at beginning of year		5,234,871	4,170,621
Cash and cash equivalents at end of year	19	2,902,559	5,234,871

Notes to the Financial Statements

1 Accounting policies

The principal 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.

Basis of preparation

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

The Company reinsures all of its current business, except for terrorism cover, with EIO, who also provide administrative services within a profit share arrangement. Therefore, except for investment, credit and counterparty risk, and the adverse development of certain pre-1998 insurance risks, its financial risks are ultimately borne by EIO. The Directors have considered the impact of COVID-19 on the Company which included considering stresses to the solvency and liquidity of the Company for a period of at least 12 months from the date of signing the financial statements. The Directors also considered the impact that COVID-19 has had on the financial and operating capability of EIO. The Directors were satisfied that the stresses were appropriate 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 in the foreseeable future, despite the current uncertain economic outlook. The directors also consider they have provided adequately for risks not reinsured with EIO and, as such, they continue to adopt the going concern basis in preparing the Report and Accounts.

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 25 is dormant, having not traded since incorporation.

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

New and revised standards

IFRS 9, *Financial Instrument*, is effective for periods beginning on or after 1 January 2018. However the Company has taken the option available to insurers to defer the application of IFRS 9 as permitted by the amendments to IFRS 4, applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* issued in September 2016. The Company qualifies for temporary exemption, which is available until annual periods beginning on or after 1 January 2021, because at 31 December 2015 the Company's gross liabilities arising from contracts within the scope of IFRS4 represented 98% of the total carrying amount of all its liabilities. There have been no significant changes to the Company's operations since that date and as a result there is no requirement to reassess the use of the temporary exemption, and therefore the Company will continue to apply IAS39, *Financial Instruments*.

Standards adopted in the year are either outside the scope of Company transactions or do not significantly impact the Company. These standards are IFRS 16 *Leases*, IFRIC 23, *Uncertainty over Income Tax Treatments*, and *Annual Improvements to IFRS Standards 2015-17 Cycle*.

Notes to the Financial Statements

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

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

Use of estimates

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

Notes to the Financial Statements

Foreign currency translation

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

Product classification

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

Premium income

Premiums are shown gross of commission paid to intermediaries and accounted for in the period in which the risk commences. The proportion of premiums written in a year which relates to periods of risk extending beyond the end of the year are carried forward as unearned premiums.

Premiums written are shown net of insurance premium taxes. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance.

Fee and commission income

Fee and commission income primarily comprises reinsurance commissions receivable and is recognised as revenue in the same manner as direct business. Non-insurance commissions receivable are accounted for in accordance with IFRS 15 *Revenue from contracts with customers*, and are recognised at the point at which the Company satisfies its performance obligation. Where this income is variable, it is recognised at the point at which it is reasonably certain that no significant reversal of the amount recognised would occur.

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

Net investment return

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

Realised gains or losses represent the difference between the net sales proceeds and purchase price. 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.

Notes to the Financial Statements

Claims

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

Insurance contract liabilities

(i) *Outstanding claims provisions*

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

(ii) *Provision for unearned premiums*

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

(iii) *Liability adequacy*

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

Reinsurance

The Company has a reinsurance treaty with EIO plc 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.

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

Financial instruments

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

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

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

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

Notes to the Financial Statements

Offset of financial assets and financial liabilities

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

Financial investments

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

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

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

Derivative financial investments

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

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

Receivables arising from insurance and reinsurance contracts

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

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

Cash and cash equivalents

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

Provisions and contingent liabilities

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

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

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

Notes to the Financial Statements

Employee benefits

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

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.

Appropriations

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

2 Critical accounting estimates, and judgements in applying accounting policies

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

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

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

The uncertainties surrounding the estimates of claims payments for the various classes of business are discussed further in note 3. General business insurance liabilities include a margin for risk and uncertainty in addition to the best estimates for future claims. The sensitivity of profit or loss in changes to the ultimate settlement cost of claims reserves is presented in note 21.

Notes to the Financial Statements

3 Insurance risk

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

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

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

General business risks

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

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

Frequency and severity of claims

(i) Property classes

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

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

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

(ii) Liability classes

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

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

Notes to the Financial Statements

Concentrations of risk

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

		Type of risk			Total £
		Property £	Liability £	Accident £	
2019					
United Kingdom	Gross	7,266,322	2,155,890	334,654	9,756,866
	Net	-	-	-	-
Republic of Ireland	Gross	265,091	116,078	11,622	392,790
	Net	-	-	-	-
Total	Gross	7,531,413	2,271,968	346,275	10,149,656
	Net	-	-	-	-
2018					
United Kingdom	Gross	7,074,943	2,065,929	325,272	9,466,144
	Net	-	-	-	-
Republic of Ireland	Gross	260,460	116,773	11,134	388,368
	Net	-	-	-	-
Total	Gross	7,335,403	2,182,703	336,407	9,854,513
	Net	-	-	-	-

As noted in the principal risks and uncertainties on page 8, the Company has agreed to introduce EIO to its customers so as to enable EIO to offer to renew the relevant Republic of Ireland policies at an arm's length market price effective from the date the UK left the EU.

Sources of uncertainty in the estimation of future claim payments

(i) Property classes

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

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

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

(ii) Liability classes

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

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

Notes to the Financial Statements

Claims that may arise from the liability portfolios 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 21 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.

(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. They typically emerge slowly over many years. The Company has taken a prudent approach to reflect this uncertainty and believes that it holds adequate reserves for latent claims that may result from exposure periods up to the reporting date.

4 Financial risk and capital management

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

As at the balance sheet date there had been no change from the prior period in the financial risks that the Company was exposed to, or the manner in which it manages and measures these risks. However the COVID-19 pandemic has created an additional and unexpected uncertainty to the business during 2020. The risks arising from this have been assessed and are being carefully monitored as they develop. Whilst we expect the investment markets to show increased volatility throughout and following the outbreak, there is not expected to be any significant adverse impact on the operations of the business, and the solvency, liquidity and financial outlook of the Company remain sufficient to withstand the pandemic.

Notes to the Financial Statements

Categories of financial instruments

	Financial assets		Financial liabilities		Non-financial assets and liabilities	Total
	Designated at fair value	Loans and receivables	Designated at fair value	at cost		
As at 31 December 2019	£	£	£	£	£	£
Financial investments	20,883,049	-	-	-	998	20,884,047
Other assets	-	1,403,662	-	-	(3,733)	1,399,929
Cash and cash equivalents	-	2,902,559	-	-	-	2,902,559
Other liabilities	-	-	(392,330)	(238,620)	(391,268)	(1,022,218)
Total	20,883,049	4,306,221	(392,330)	(238,620)	(394,003)	24,164,317
Net other liabilities						(6,970,475)
Net assets						17,193,842
As at 31 December 2018	£	£	£	£	£	£
Financial investments	19,445,301	-	-	-	998	19,446,299
Other assets	-	1,212,832	-	-	3,733	1,216,565
Cash and cash equivalents	-	5,234,871	-	-	-	5,234,871
Other liabilities	-	-	(391,005)	(461,823)	(378,932)	(1,231,760)
Total	19,445,301	6,447,703	(391,005)	(461,823)	(374,201)	24,665,975
Net other liabilities						(7,766,964)
Net assets						16,899,011

As disclosed in the accounting policies, the Company has chosen to defer application of IFRS 9 and classifies and measures financial instruments using IAS 39. To facilitate comparison with entities applying IFRS 9, the table below sets out the Company's financial assets at the balance sheet date, split between those which have contractual cash flows that are solely payments of principal and interest on the principal outstanding (SPPI) and all other financial assets.

	2019			2018		
	SPPI financial assets	Other financial assets	Total financial assets	SPPI financial assets	Other financial assets	Total financial assets
	£	£	£	£	£	£
Financial Investments	-	20,883,049	20,883,049	-	19,445,301	19,445,301
Cash and cash equivalents	2,902,559	-	2,902,559	5,234,871	-	5,234,871
Other financial assets	1,403,662	-	1,403,662	1,212,832	-	1,212,832
Total fair value	4,306,221	20,883,049	25,189,270	6,447,703	19,445,301	25,893,004

There has been a £2,141,482 decrease (2018: increase £1,149,386) in the fair value of SPPI financial assets of the Company, and a £1,437,748 increase (2018: decrease £1,275,585) in the fair value of other financial assets of the Company during the year.

Notes to the Financial Statements

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

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

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

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

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

Analysis of fair value measurement bases

	Fair value measurement at the end of the reporting period based on			Total £
	Level 1 £	Level 2 £	Level 3 £	
As at 31 December 2019				
Financial investments				
Equity securities	13,245,338	-	-	13,245,338
Debt securities	7,621,728	-	-	7,621,728
Derivatives	-	15,983	-	15,983
	<u>20,867,066</u>	<u>15,983</u>	<u>-</u>	<u>20,883,049</u>
As at 31 December 2018				
Financial investments				
Equity securities	12,286,561	-	-	12,286,561
Debt securities	7,157,784	-	-	7,157,784
Derivatives	-	956	-	956
	<u>19,444,345</u>	<u>956</u>	<u>-</u>	<u>19,445,301</u>

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 2019, £15,983 (2018: £956) of derivative financial instruments were included in financial investments and £21,426 (2018: £5,791) included in Other Liabilities.

Interest rate risk

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

	Maturing within:			Total £
	1 year £	1-5 years £	More than 5 years £	
As at 31 December 2019				
Debt securities	933,028	3,697,104	2,991,596	7,621,728
Other assets including insurance receivables	1,007,486	-	-	1,007,486
Cash and cash equivalents	2,902,559	-	-	2,902,559
	<u>4,843,073</u>	<u>3,697,104</u>	<u>2,991,596</u>	<u>11,531,773</u>
As at 31 December 2018				
Debt securities	1,067,795	2,333,605	3,756,384	7,157,784
Other assets including insurance receivables	897,910	-	-	897,910
Cash and cash equivalents	5,234,871	-	-	5,234,871
	<u>7,200,576</u>	<u>2,333,605</u>	<u>3,756,384</u>	<u>13,290,565</u>

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

Notes to the Financial Statements

Credit and operational risk

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

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

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

The Company uses reinsurance to manage insurance risk, with all business accepted by the Company fully reinsured with 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 Ecclesiastical Insurance Office plc has credit ratings of A- (stable outlook) with Standard and Poors, and A (stable outlook) with AM Best.

The Company's credit risk policy details prescriptive methods for the collection of premiums and control of intermediary and policyholder debtor balances. The level and age of debtor balances are regularly assessed via monthly credit management reports and where possible creditors are monitored via credit reference agencies to minimise the risk of default.

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.

The following table provides information regarding the credit risk exposure of financial assets with credit ratings from Standard & Poors 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 2019

	SPPI			Non-SPPI
	Cash and cash equivalents	Other financial	Total SPPI	Debt instruments
AAA	-	-	-	132,602
AA	-	-	-	6,453,066
A	2,902,559	-	2,902,559	-
BBB	-	-	-	39,749
Below BBB	-	-	-	-
Not rated	-	1,403,662	1,403,662	996,312
	2,902,559	1,403,662	4,306,221	7,621,728

As at 31 December 2018

	SPPI			Non-SPPI
	Cash and cash equivalents	Other financial	Total SPPI	Debt instruments
AAA	-	-	-	140,965
AA	-	-	-	6,831,909
A	1,006,062	-	1,006,062	-
BBB	4,228,809	-	4,228,809	41,727
Below BBB	-	-	-	-
Not rated	-	1,212,832	1,212,832	143,184
	5,234,871	1,212,832	6,447,703	7,157,784

Notes to the Financial Statements

The Company has outsourced 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. The insurance contract liabilities of the company are reinsured by EIO. The timing of significant outflows are matched by corresponding reinsurance inflows. The Company is exposed to the risk of claims being incurred above the current level of provisions up to the point at which reinsurance cover takes effect.

Currency risk

The Company operates in the UK and the Republic of Ireland. 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.

	2019	2018
US \$	9,514,010	4,539,923
Euro	2,752,532	1,635,321

This exposure is reduced through the use of currency forward contracts. The underlying value of these instruments are \$6,695,074 (2018: \$2,342,700) and €1,287,507 (2018: €694,300)

The Company's exposure to foreign currency risk also arises from cash holdings by currency. The Company's primary risk is designated in euros. This balance at 31 December 2019 was €843,390 (31 December 2018: €616,570).

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 17 to the financial statements.

Notes to the Financial Statements

Market risk sensitivity analysis

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

Variable	Change in variable	Potential increase/ (decrease) in profit after tax and equity	
		2019	2018
		£	£
Interest rate risk	-100 basis points	273,600	317,483
	+100 basis points	(326,449)	(292,229)
Currency risk	-10.0%	(387,697)	(406,263)
	+10.0%	387,697	406,263
Equity price risk	-10.0%	(1,072,872)	(995,211)
	+10.0%	1,072,872	955,211

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 19.00% (2018: 19.00%).

Notes to the Financial Statements

Capital management

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

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

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

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

5 Net insurance premium

	2019	2018
	£	£
Gross written premiums	10,149,656	9,854,513
Change in the gross provision for unearned premiums	<u>(192,925)</u>	<u>(106,842)</u>
Gross earned premiums	<u>9,956,731</u>	<u>9,747,671</u>
Outward reinsurance premiums	(10,149,656)	(9,854,513)
Change in the provision for unearned premiums, reinsurers' share	<u>192,925</u>	<u>106,842</u>
Reinsurers' share of earned premiums	<u>(9,956,731)</u>	<u>(9,747,671)</u>
Net written premiums	-	-
Change in the net provision for unearned premiums	<u>-</u>	<u>-</u>
Net earned premiums	<u>-</u>	<u>-</u>

6 Commission income

	2019	2018
	£	£
Reinsurance commissions and profit commission	2,261,209	1,912,352
Other commissions	<u>11,838</u>	<u>12,758</u>
	<u>2,273,048</u>	<u>1,925,110</u>

During the year the Company received commission income of £14,537 (2018: £12,779) from its contracts with customers, which was recognised in respect of performance obligations satisfied at a point in time.

Notes to the Financial Statements

7 Net investment return

	2019	2018
	£	£
<i>Investments at fair value through profit or loss:</i>		
- dividend income	367,503	407,407
- interest income	173,845	128,336
<i>Other investments:</i>		
- cash and cash equivalents (expense)/income	(10,755)	15,598
- other income received	4,182	4,462
Investment income	<u>534,775</u>	<u>555,803</u>
Fair value gains/(losses) on investments at fair value through profit or loss	2,646,208	(1,086,352)
Investment expenses	<u>(119,124)</u>	<u>(117,278)</u>
Net investment return	<u>3,061,859</u>	<u>(647,827)</u>

Included within cash and cash equivalents income are exchange losses of £26,883 (2018: £4,598 gains).

8 Claims and change in insurance liabilities and reinsurance recoveries

	2019	2018
	£	£
Gross claims paid	3,729,185	3,839,003
Gross change in the provision for claims	<u>(1,293,456)</u>	<u>218,765</u>
Claims and change in insurance liabilities	<u>2,435,729</u>	<u>4,057,768</u>
Reinsurers' share of claims paid	<u>(3,233,010)</u>	<u>(3,676,919)</u>
Reinsurers' share of change in the provision for claims	<u>506,225</u>	<u>(350,257)</u>
Reinsurance recoveries	<u>(2,726,786)</u>	<u>(4,027,176)</u>
Claims and change in insurance liabilities, net of reinsurance	<u>(291,057)</u>	<u>30,592</u>

9 Commissions and other acquisition costs

	2019	2018
	£	£
Commission paid	<u>91,476</u>	<u>89,116</u>

10 Other operating and administrative expenses

	2019	2018
	£	£
Directors' emoluments	80,816	79,308
Legal and professional fees	52,341	4,531
Other expenses	<u>110,577</u>	<u>59,131</u>
	<u>243,734</u>	<u>142,970</u>

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

11 Operating profit

	2019	2018
	£	£
<i>Operating profit has been arrived at after charging/(crediting):</i>		
- Net foreign exchange losses/(gains)	26,883	(4,598)
- Directors' emoluments	<u>80,816</u>	<u>79,308</u>

Methodist Insurance PLC

Notes to the Financial Statements

12 Auditor's remuneration

	2019	2018
	£	£
<i>Fees payable to the company's auditor for:</i>		
- The audit of the Company's annual accounts	90,000	-
<i>Fees payable to the company's predecessor auditor for:</i>		
- Non audit related services	8,447	45,000
	98,447	45,000

Audit related assurance services represents the audit of regulatory returns.

13 Employee information

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

14 Charitable grants

	2019	2018
	£	£
Charitable grants to Methodist funds and organisations	5,000,000	1,500,000
Charitable grants to other organisations	5,000	5,000
	5,005,000	1,505,000

15 Tax

	2019	2018
	£	£
UK corporation tax for the current financial year	30,609	-
Total current tax charge	30,609	-
Deferred taxation charges	(39,874)	(29,307)
Tax credit	(9,265)	(29,307)

Tax on the Company's profit before tax differs from the United Kingdom rate of corporation tax of 19.00% (2018: 19.00%) for the reasons set out in the following reconciliation:

	2019	2018
	£	£
Profit/(loss) before tax	285,754	(490,395)
Tax calculated at the UK rate of 19.00% (2018: 19.00%).	54,293	(93,175)
<i>Factors affecting charge for the period:</i>		
Income not taxable	(74,052)	(94,025)
Unrealised gains on investments crystallising	4,546	3,448
Excess charitable donations and expenses not deductible for tax purposes	5,948	154,445
Tax credit	(9,265)	(29,307)

Current tax has been provided at a rate of 19% for both the current and prior year. A further reduction in the rate of corporation tax to 17% has been substantively enacted to take effect from April 2020. Deferred tax has been provided at a rate of 17% (2018: 17%).

Notes to the Financial Statements

16 Appropriations

	2019	2018
	£	£
<i>Amounts recognised as distributions to equity holders in the period:</i>		
Dividends	188	188

This equates to a dividend of 1p per share (2018: 1p).

17 Financial investments

	2019	2018
	£	£
<i>Financial investments at fair value through profit or loss</i>		
Equity securities:		
- listed	13,245,338	12,286,561
Debt securities:		
- government bonds	6,625,416	7,014,600
- listed	996,312	143,184
Derivative financial instruments	15,983	956
<i>Investments in group undertakings</i>		
Shares in subsidiary undertakings (see note 25)	998	998
Total financial investments	20,884,047	19,446,299

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

18 Other assets

	2019	2018
	£	£
<i>Receivables arising from insurance and reinsurance contracts:</i>		
- due from contract holders	1,258,833	1,061,703
- due from agents, brokers and intermediaries	46,491	57,202
<i>Other receivables:</i>		
- accrued interest	55,900	52,733
- other prepayments and accrued income	38,705	44,928
	1,399,929	1,216,565

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.

19 Cash and cash equivalents

	2019	2018
	£	£
Cash at bank and in hand	763,581	615,928
Short term bank deposits	2,138,978	4,618,943
	2,902,559	5,234,871

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

Notes to the Financial Statements

20 Called up share capital

	2019	2018
	£	£
<i>Issued, allotted and fully paid:</i>		
18,750 ordinary shares of £6, each fully paid	112,500	112,500

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

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

21 Insurance liabilities and reinsurance assets

Claims outstanding

	2019	2018
	£	£
<i>Gross</i>		
Claims outstanding	15,233,411	16,543,077
Unearned premiums	5,996,604	5,813,891
Total gross insurance liabilities	21,230,015	22,356,968

Recoverable from reinsurers

Claims outstanding	8,317,839	8,840,273
Unearned premiums	5,996,604	5,813,891
Total reinsurers' share of insurance liabilities	14,314,443	14,654,164

Net

Claims outstanding	6,915,572	7,702,804
Unearned premiums	-	-
Total net insurance liabilities	6,915,572	7,702,804

Gross insurance liabilities

Current	8,778,079	8,888,472
Non-current	12,451,936	13,468,496
	21,230,015	22,356,968

Reinsurance assets

Current	8,778,079	8,888,472
Non-current	5,536,364	5,765,692
	14,314,443	14,654,164

General business insurance contracts

(i) Reserving methodology

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

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

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

Notes to the Financial Statements

(ii) Calculation of uncertainty margins

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

(iii) Calculation of special provisions for latent claims

The Company adopts commonly used industry methods including those based on stochastic models. Stochastic models are statistical models used to derive a distribution of potential outcomes for frequency and severity. When data is sparse benchmarking is used instead.

(iv) Assumptions

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

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

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

Of the total claims provision £3,181,285 (2018: £3,354,743) gross and £3,181,285 (2018: £3,354,743) net after assumed reinsurance recoveries relate to this matter.

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

(v) Change in assumptions

There are no significant changes in assumptions.

(vi) Sensitivity of results

The ultimate amount of claims settlement is uncertain and the Company's aim is to reserve at a prudent level. For 2019 the method of calculating the sensitivity has been refined and the comparatives have been amended to reflect the new method.

The table below shows the impact on the result before tax considering an increase in gross loss ratio of 10%

	2019		2018	
	Gross £000	Net £000	Gross £000	Net £000
Liability	223	-	213	-
Property	731	-	721	-

Notes to the Financial Statements

(vii) Claims development tables

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

	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	2019 £000	Total £000
Estimate of ultimate claims:											
At end of year	6,271	6,148	6,205	4,289	5,158	7,472	3,765	3,666	4,757	4,169	
One year later	5,526	4,653	4,914	3,208	4,064	6,667	2,953	3,689	4,338		
Two years later	4,811	4,604	4,518	3,466	3,596	5,858	2,488	3,278			
Three years later	4,832	3,764	3,967	2,807	3,547	5,539	2,354				
Four years later	4,687	3,724	3,706	3,029	3,413	5,238					
Five years later	4,547	3,730	3,648	2,758	3,374						
Six years later	4,708	3,687	3,679	2,665							
Seven years later	4,665	3,642	3,680								
Eight years later	4,709	3,646									
Nine years later	4,663										
Current estimate of	4,663	3,646	3,680	2,665	3,374	5,238	2,354	3,278	4,338	4,169	37,406
Cumulative payments to date	(4,543)	(3,455)	(3,545)	(2,534)	(3,249)	(4,184)	(2,057)	(2,300)	(3,074)	(1,387)	(30,330)
Outstanding liability	120	192	135	131	125	1,054	296	978	1,264	2,781	7,076
Liability in respect of earlier years											7,797
Internal claims handling reserve											361
Total gross liability included in insurance liabilities in the balance sheet											15,233
Reinsurers' share of contract provisions											(8,318)
Total net liability											6,916

Notes to the Financial Statements

(viii) Movements in insurance liabilities and reinsurance assets

	Gross £	Reinsurance £	Net £
<i>Claims outstanding</i>			
At 1 January 2019	16,543,077	(8,840,273)	7,702,804
Exchange differences	(16,210)	16,210	-
Cash (paid)/received for prior year claims settled in the year	(2,341,039)	1,844,864	(496,175)
Change in prior year liabilities/reinsurance assets	(1,733,891)	1,442,834	(291,057)
Prior year liabilities/(reinsurance assets) at 31 December 2019	12,451,937	(5,536,365)	6,915,572
Current year claims/(recoveries)	4,169,621	(4,169,621)	-
Cash (paid)/received for current year claims settled in the year	(1,388,146)	1,388,146	-
Current year liabilities/(reinsurance assets) at 31 December 2019	2,781,475	(2,781,475)	-
At 31 December 2019	15,233,412	(8,317,840)	6,915,572
<i>Provision for unearned premiums</i>			
At 1 January 2019	5,813,891	(5,813,891)	-
Exchange differences	(10,213)	10,213	-
Movement in the year	192,925	(192,925)	-
At 31 December 2019	5,996,603	(5,996,603)	-
<i>Claims outstanding</i>			
At 1 January 2018	16,320,071	(8,485,776)	7,834,295
Exchange differences	4,240	(4,240)	-
Cash (paid)/received for prior year claims settled in the year	(2,158,109)	1,996,026	(162,083)
Change in prior year liabilities/reinsurance assets	(697,706)	728,298	30,592
Prior year liabilities/(reinsurance assets) at 31 December 2018	13,468,496	(5,765,692)	7,702,804
Current year claims/(recoveries)	4,755,474	(4,755,474)	-
Cash (paid)/received for current year claims settled in the year	(1,680,893)	1,680,893	-
Current year liabilities/(reinsurance assets) at 31 December 2018	3,074,581	(3,074,581)	-
At 31 December 2018	16,543,077	(8,840,273)	7,702,804
<i>Provision for unearned premiums</i>			
At 1 January 2018	5,705,038	(5,705,038)	-
Exchange differences	2,011	(2,011)	-
Movement in the year	106,842	(106,842)	-
At 31 December 2018	5,813,891	(5,813,891)	-

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

Notes to the Financial Statements

22 Deferred tax

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

	Financial assets at fair value through profit or loss £	Capital allowances in excess of depreciation £	Total £
At 1 January 2018	90,187	6,704	96,891
Credit to income	(29,307)	-	(29,307)
Charge to income resulting from reduction in tax rate	-	-	-
At 31 December 2018	60,880	6,704	67,584
Credit to income	(38,638)	(1,236)	(39,874)
At 31 December 2019	22,242	5,468	27,710

23 Other liabilities

	2019 £	2018 £
Creditors arising out of direct insurance operations	48,650	10,736
Creditors arising out of reinsurance operations	446,899	745,448
Derivative liabilities	21,426	5,791
Other creditors	392,330	391,005
Amounts owed to related parties	998	998
Accruals	111,915	77,782
	1,022,218	1,231,760
Current	1,021,220	1,230,762
Non-current	998	998

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

The creditors arising out of reinsurance operations comprises £2,799,344 (2018: £2,798,798) payables net of £2,354,832 (2018: £2,053,339) receivables.

Notes to the Financial Statements

24 Related party transactions

The Company has a reinsurance treaty with Ecclesiastical Insurance Office plc whereby all post 1998 business accepted by the Company is fully reinsured with Ecclesiastical 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 Ecclesiastical Insurance Office plc under which all administration expenses are borne by EIO.

The Company ceded premiums net of claims paid and commissions to the value of £6,734,547 (2018: £6,014,314) during the year to EIO, which also bore expenses of the Company's business of £1,970,313 (2018: £1,816,148). The reinsurers' share of technical provisions due from EIO as at 31 December 2019 is £14,314,443 (2018: £14,596,693) which consists of £5,813,891 (2018: £5,756,689) of unearned premium and £8,500,552 (2018: £8,840,273) of outstanding claims. At 31 December 2019 £428,552 was due to EIO (2018: £730,198 due to Ecclesiastical Insurance Office plc). Information about key management personnel compensation is provided in note 10 to the financial statements.

Transactions and services with related parties are made on commercial terms. The Company has a letter of credit with Ecclesiastical Insurance Office plc for £2,000,000 (2018: £2,000,000) in respect of reinsurance amounts recoverable. Other amounts outstanding are unsecured, are not subject to guarantees, and will be settled in cash. No provisions have been made in respect of these balances.

25 Subsidiary undertakings

The Company's interest in subsidiary undertakings at 31 December 2019 is as follows:

	Share Capital	Holding
Methodist Insurance Services Limited	Ordinary shares	99.8%

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

26 Events after the balance sheet date

In early 2020, the existence of a new coronavirus, COVID-19, was confirmed. This virus has since spread across the globe and is now characterised by the World Health Organization as a pandemic. COVID-19 has caused disruption to businesses and economic activity which has been reflected in recent fluctuations in UK and global stock markets. The Company considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event. The Company has conducted additional assessments of its operational resilience, solvency, liquidity and financial position and concluded that these remain sufficient, demonstrated by the 31 March 2020 solvency ratio which remains in excess of the Solvency II regulatory capital requirements and above operating tolerance levels set by the board, despite the decline of the investment market experienced to date. The net assets of the Company as at 31 March 2020 were £15.4m, unaudited (31 December 2019: £17.2m).

