Annual Report 2021

COMPANY REGISTRATION NUMBER: 00006369

METHODIST INSURANCE PLC

ANNUAL REPORT AND ACCOUNTS 31 DECEMBER 2020

Methodist Insurance PLC

Report and Accounts 31 December 2020

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

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

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

Officers and company information

Directors	A. G. Gibbs MA, FCA *Chairman* C. H. Boothman, FRICS *Deputy Chairman* 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 J. Jefferson (Appointed on 20 January 2021) L. Wilkins (Appointed on 3 March 2021)
Company Secretary	Mrs R. J. Hall FCIS
Chief Executive Officer	M. G. Angell ACII
Auditor	Ernst & Young LLP
Bankers	National Westminster Bank plc
Registered Office	Benefact House, 2000 Pioneer Avenue Gloucester Business Park, Brockworth, Gloucester, GL3 4AW
Company Registration Number	00006369

Directors' Biographies

A. G. Gibbs MA, FCA Chairman
Member of Investment Committee
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 (RICS) and was a partner in Gleeds Construction Consultants in the North West and director of the Asia Pacific business. Former governor of Altrincham Grammar School and a board member of a Housing Association catering for Special Needs in Cumbria. Away from business, Colin is Chairman of Kendal Ramblers and is now involved with the local Civic Society.

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 President of the Gloucestershire Lawn Tennis Association and a councillor of the National LTA. He is also Deputy President of his local national league rugby club, Old Patesians RFC and is actively involved in his local church.

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

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. He was also General Manager for Methodist Insurance 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.

Directors' Biographies

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. Paul is a director of Allchurches Trust and is a member of the Grant Giving Committe. For the Connexional Methodist Church he sits on the board of Trustees for Methodist Church purposes and the Connexional Trustees. Away from ministry activities he enjoys regular visits to the gym, cycling and walking.

J. M. Hamilton BSc (Econ), FIA

Audit, Risk and Compliance Committee member, Investment Committee member

First appointed to the Board in 2005 and is due to retire in May 2021

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

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

First appointed to the Board in 2018

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

J. Jefferson (Appointed on 20 January 2021)

First appointed to the Board in 2021

During a career in banking, John has served as a Non Executive Director on a number of UK payment scheme company boards. In addition he has been a senior executive and General Manager of the UK Faster Payments Service. John is a member of the Methodist Church and has held a number of positions in local Churches and Circuits. Currently he is a Trustee and Chair of the Audit and Risk committee for the Trustees for Methodist Church Purposes.

L. Wilkins (Appointed on 3 March 2021)

First appointed to the Board in 2021

Louise is a Chartered Legal Executive and currently works for Oxfam as their deputy general counsel having spent 8 years as Conference Officer for Legal and Constitutional Practice for the Methodist church. Louise has previously worked as a lawyer for the Baptist Union and started her career in family law. Louise is an active member of her local Methodist church, member of the church council and parent governor for her daughter's primary school.

Chairman's Statement

Chairman's review of business operations

Last year I reported that 2019 had been an exceptionally successful year for the Company and that we should not expect the record annual profit (before grants and tax) of £5.3 million that year to recur for many years, if ever. In the context of the developing pandemic and consequent economic downturn and stock market uncertainties, this seemed a safe prediction, at the least for 2020.

In the event, 2020 has also produced an exceptional result, a £5.0 million profit before grants and tax, only a little lower than the figure reported for 2019.

Covid-19

First, it is not possible to review our business in 2020 without reference to Covid-19. Beginning in March, the coronavirus pandemic that had been spreading around the world became so serious in the UK that people were confined to home and many shops and sports and leisure outlets were closed. A year on and there had been a death rate in the UK attributable to Covid-19 of over 125,000 people and social and financial disruption on a scale unprecedented outside wartime. Towards the end of the year effective vaccines had been developed and were approved for use. The mass vaccination that has taken place since December 2020 has already had a positive effect on the rates of hospitalisation and death.

Despite substantial Government intervention to support the economy, the UK had a very severe economic recession, with a decline in UK GDP for 2020 that is estimated at minus 10%.

The improving outlook for controlling the pandemic worldwide and an economic bounce back in the UK and the rest of the world in 2021 were widely perceived before the end of 2020. Combined with monetary easing, the favourable outlook benefited both Global bond and equity markets towards the end of the year.

In common with the rest of the UK economy that has remained open, our business has been conducted remotely, with staff working from home and meetings being conducted over the internet and by telephone. It is pleasing to report that operational efficiency has been maintained to a very high standard with little negative impact on customer service and customer satisfaction.

Financial results

The detailed financial results show a turnover of £9,613,240 (2019: £10,149,656) and an operating profit before grants and tax of £5,028,478 (2019: £5,290,754). This is made up of a positive result on underwriting of £2,476,948 (2019: £2,223,895) complemented by an investment return of £2,551,530 (2019: £3,061,859).

There was a positive contribution from each of the three sources which make up the annual profit or loss.
1. Despite a decline in premium income, the exceptionally low claims experience during the period led to a very high profit commission on the year’s insurance underwriting.
2. There was a very high total return on the Company’s investments.
3. There was a small net release of provisions previously made against claims on our business in run-off, that is, on the claims incurred prior to 1998.

In addition there was a receipt of £173,000 in commission from the introduction to Ecclesiastical Insurance of business in the Republic of Ireland.

Capital Adequacy

At 31 December 2020, as has been the case for many years, the Company’s capital position remained very strong with estimated and unaudited ‘Own Funds’ for Solvency ll purposes of £19,650,000 (2019: £18,308,000). All the prescribed capital requirements were comfortably exceeded.

Our Core Business – Insurance Underwriting

Our core business is, and will remain, the provision of insurance services to the Methodist Church and community. As a Board, we have examined closely the terms upon which we offer our policies to our customers and have provisionally concluded that our pricing, largely based on existing rates, appears, overall, fair and reasonably consistent. In recent years, however, our claims experience has been exceptionally favourable, and, with a number of releases where provisions made on large claims were no longer required, we were able again in 2020 to record another very strong underwriting result. As a consequence, a thorough pricing review will be carried out next 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 asset class, namely, global equities, using a corresponding market index for performance measurement. This decision was implemented with effect from 1 January 2020. In 2020, the performance of the investment managers against the relevant benchmarks was broadly in line for bonds while the Company’s Global equities outperformed the benchmark index by a wide margin.

In 2020 the value of the financial investments increased to £21,592,781 (2019: £20,884,047). The benchmark index for Global equities rose by 12.7% while conventional gilts rose by 8.3%. After allowing for net disposals in the year, the overall investment return, inclusive of investment income, capital appreciation and exchange gains and net of investment expenses, was £2,551,530. The return for the year on the whole portfolio was measured at 11.5%.

Chairman's Statement

Rolling three year return

The Company aims to secure a positive return on its investments, expressed as the compound average annualised net return after expenses over rolling three year periods. After a negative return in 2018, the compound average annualised return for the last three calendar years to 31 December 2020 has been positive at 7.4% p.a. (2019: 6.4%).

Asset Allocation

At the year end, considering the funds held by the Investment Manager, 33% (2019: 34%) was invested in fixed interest (chiefly short and medium dated conventional and index linked gilts, together with some corporate and overseas bonds), 56% (2019: 55%) in global equities and 11% (2019: 11%) in cash and other investments.

Year End Provisions

The Board has a substantial provision in place for historic 1998 claims that precede the settlement with AXA Insurance and the initiation of reinsurance cover with EIO (from 1 July 2010), to cover Run-Off claims over £12million and up to £25 million. At the moment the combined total of Run-Off claims paid and provisions is £8.2million. 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 (Run-Off Claims) amount to £6.1million.

Joint Adminstration Agreement

At the heart of the operation of the Company lies the Joint Administration Agreement with the Ecclesiastical Insurance Company. The Board is satisfied that this arrangement, first entered into in 1998 and reviewed and revised in 2021, is working well. It recognises that the operational success of the Company depends on the continuing satisfactory implementation of the terms of the Agreement.

Grants

The grant payment is made prior to the year end to benefit from relief from corporation tax. In 2020 we did not anticipate the strength of equity markets in the closing weeks of the year and made a grant of £3,000,000 (2019: £5,005,000) resulting in a net profit before tax of £2,028,478 (2019: £285,754).

The grant of £3 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 for 5 years.

Thanks

We are grateful to all the administration staff in Manchester and Gloucester who continue to provide the Company with such a high standard of service, and who receive consistent praise from our customers. New and effective leadership skills have been required from executive management in these remarkable times, and we have been fortunate indeed in the contribution of 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. Graham will be retiring in 2021 and we wish him well in his retirement.

Directors

During this time of upheaval, we have recognised as a Board of Directors the need to refresh and renew its composition. We welcome early in 2021 two new members to the Board, John Jefferson and Louise Wilkins, both of whom will, I believe, be able to contribute significantly to the Company in the future. At the same time, Malcolm Hamilton and I shall be standing down. We are both very long serving members of the Board and it is timely that we should make way for others.

It is expected that I shall be succeeded as Chairman by Colin Boothman, who will be proposed as Chairman at the AGM. This appointment is dependent upon regulatory approval.

I would like to place on record my heartfelt appreciation to my fellow directors for their support during the period of my Chairmanship.

A.G.Gibbs
Chairman on behalf of the Directors

Strategic Report

The directors present their strategic report for the year ended 31 December 2020.

Objective and strategy

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

The objective of the Company is to be the first choice insurer for Methodist church properties by running an ethical and profitable general insurance company helping communities to create safe environments for worship, witness and service. This is achieved by underwriting its cost of risk and providing risk management advice. The Company looks to maintain its strong capital position allowing it to continue on an ongoing basis to provide these services at a competitive price along with reinvesting in the Methodist community via the provision of 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 decreased to £9,613,240 (2019: £10,149,656) representing a decrease of 5.3% on the previous year. This decrease can be attributed to the loss of the Irish business in preparation for Brexit and an increased number of lapses following the Covid-19 pandemic.

Claims ratio

Our claims ratio (incurred claims to earned premiums) of 14.5% (2019: 24.4%) shows a 9.89 point decrease on the previous year. The key driver for this variance has been a number of attritional claims releases and lower large claims in the year compared to 2019.

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 £2,488,875 (2019: £2,141,141) with the key driver being favourable claims performance in both years.

Investment return

Following a decrease in the world equity index and falling interest rates at the start of the year due to Covid-19, 2020 ended with a strong final quarter due to positive vaccine announcements. The Company's underlying investments therefore delivered a positive return due to increased confidence as a result of positive vaccine announcements. 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 £2,551,530 (2019: £3,061,859).

Grants

The aim of the Company and the directors continues to be to support Methodist organisations. During 2020, charitable grants of £3,000,000 (2019: £5,005,000) 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 £2,028,478 (2019: £285,754). After the impact of tax and dividends, the amount of retained earnings has increased by £1,692,047 (2019: £294,831). The Company remains well capitalised as disclosed in note 4.

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

Regulatory, solvency and capital management

The Company is required to comply with 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). The Company is required to maintain its regulatory capital above the 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 Assessment Report (ORSA) which is a private, internal forward looking assessment of own risk and capital requirement, as required as part of the Solvency II regime. Risk appetite is set such that the target level of economic capital is always higher than the regulatory SCR.

As at 31 December 2020, the estimated and unaudited solvency ratio, which is defined as Solvency II Own Funds as a proportion of the SCR, was 290% (2019: 264%).

Principal risks and uncertainties

The principal risks and uncertainties are:

- 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;
- 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 Senior Management Function responsibility holder for managing climate change risk; and
- The Covid-19 pandemic has created an additional and unexpected uncertainty to the business during 2020. Through the administration agreement with EIO, measures have been put in place to protect and maintain operational resilience and to date, the business continuity plans are working effectively with no adverse impact to customers or staff having arisen. There have been a number of policy lapses, mainly in relation to the Commercial niche and credit control has been slightly impacted with the number of first defaults and Direct debit Payment Holiday requests increasing. The risks arising from this have been assessed and are being carefully monitored. The potential impact on premiums and claims in 2021 are expected to be minimal, following the experience seen in 2020. Whilst we expect the investment markets to show increased volatility 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 and any further lockdowns.

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.

Strategic Report

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.

The Covid-19 pandemic has had a significant impact on all of our stakeholders. This impact and how we have responded to protect our business, our customers and manage the expectations of our stakeholders has been set out in our Stakeholder engagement overview below.

Ecclesiastical Insurance Office plc:

Day to day management services are provided by Ecclesiastical Insurance Office plc ("EIO") on the Company's behalf under the terms of the Joint Administration Agreement ("JAA").

EIO is accountable to the Board for all services undertaken in accordance with the JAA. The Board annually reviews the provision of services undertaken by EIO on the Company's behalf, providing rigorous challenge and oversight of management.

Various members of EIO's management team are invited to attend Board meetings. Mark Hews, EIO Group Chief Executive Officer (CEO) 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 is aware of its responsibility regarding to culture within the business, and therefore regularly meets with EIO Staff, encouraging open and honest dialogue.

Workforce

Whilst the Company itself does not have any employees, there are a number of persons employed by the EIO who conduct business on behalf of the Company in accordance with the JAA ("the Workforce"). The Board understands that the Company needs to engage with its Workforce, build and maintain relationships with suppliers, and others to be successful over the long term.

The Company regularly engages with its Workforce. Engagement takes place through a range of formal and informal channels including Staff Lunches with the Board and invitations to present at Board and Committee meetings and People updates within the Monthly Business Report and the quarterly CEO Report to the Board.

Day to day management responsibility of the Company's Workforce falls to EIO in accordance with the JAA. The Board acknowledges its responsibility to oversee and challenge EIO's modes of workforce engagement.

The Board requested and received regular updates on the operational impact of Covid-19 upon the Company's Workforce, including the impact of moving to a remote working model, and the health and wellbeing of the Workforce.

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. Due to Covid-19 restrictions, a virtual AGM was held. In order to allow for open channels of communications all shareholders were invited to attend the virtual meeting, and to submit any queries to the Directors (via the Company Secretary) electronically.

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 monthly Company's Business Report, which documents "Operational Excellence" specifically noting customer satisfaction scores and any complaints handling data. Members of the Board actively engage with its customer base.

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) receives regular updates on legal, regulatory and compliance matters.

Strategic Report

Community and environment

The Directors have considered an initial plan to address climate change requirements. Moreover, recognising the importance of climate change, a specific Climate Change risk has been added to the Company's Strategic Risk Register.

By order of the board

Mrs R. J. Hall
Secretary
25 March 2021

Directors' Report

The directors present their annual report and financial statements for the year ended 31 December 2020.

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

Going concern
The Company reinsures all of its current business, except for terrorism cover, with EIO, who also provide administrative services within a profit share arrangement. Therefore, except for investment, credit and counterparty risk, and the adverse development of certain pre-1998 insurance risks, its financial risks are ultimately borne by EIO. The Directors have considered the impact of Covid-19 on the Company, which as seen from the 2020 experience has not materially impacted the Company, and have considered stresses to the solvency and liquidity of the Company to 31 December 2022. 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 significantly more extreme than those experienced during 2020) and after considering the stresses and any mitigating actions as well as the financial and operating capability of EIO, the directors believe the Company is well placed to manage such risks to 31 December 2022. 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 2020, absorbing the sum of £188 (2019: £188). This equates to a dividend of 1p per share (2019: 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.

J. Jefferson was appointed as a director on 20 January 2021. In accordance with the Articles of Association, he retires at the forthcoming annual general meeting, and being eligible, offers himself for election.

L. Wilkins was appointed as a director on 3 March 2021. In accordance with the Articles of Association, she retires at the forthcoming annual general meeting, and being eligible, offers herself for election.

The following Directors shall retire by rotation and, being eligible, offers themselves for re-election:
Revd. L. J. Barriball
Revd. P. H. Davis

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 Accounting Standards (IAS) in conformity with the requirements of the Companies Act 2006.

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

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the financial position and financial performance;
- state whether international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the company will not continue in business.

Directors' Report

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

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

Auditor and the disclosure of information to the auditor

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

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

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

Mrs R. J. Hall
Secretary
25 March 2021

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 2020 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 Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2020 and of its profit for the year
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; 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

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

• confirming our understanding of management's going concern assessment process and obtaining management's assessment which covers the period to 31 December 2022;

• assessing the accuracy of management's analysis by testing the reasonableness of the inputs to the cash flow model and the clerical accuracy of the model used;

• evaluating the liquidity and solvency position of the Company by reviewing base case liquidity and solvency projections that incorporate an estimated view of the potential future economic recovery that is anticipated to be experienced due to the impacts of Covid-19;

• obtaining and reviewing the latest Board approved ORSA, assessed whether the stress testing included in the ORSA was reasonable and considered the solvency position under each stress scenario;

• evaluating management's forecast analysis to understand how severe the downside scenarios would have to be to result in the elimination of solvency and liquidity headroom and concluded it to be remote;

• assessing the plausibility of available management actions to mitigate the impact of the key risks by comparing them to our understanding of the Company;

• performing enquiries of management and those charged with governance to identify risks or events that may impact the Company's ability to continue as a going concern. We also reviewed management's assessment approved by the Board, minutes of meetings of the Board and its committees, and made enquiries as to the impact of Covid-19 on the business;

• holding a meeting with the Ecclesiastical Insurance (EIO) Group Financial reporting manager to understand the going concern assessment performed at EIO as the Company's ability to continue its operations are fully dependent on EIO under the joint administration agreement; and

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the period to 31 December 2022.

Independent Auditor's Report

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

Overview of our audit approach

Key audit matters	- Valuation of Pre-1998 insurance contract liabilities - Estimates involved in the calculation of profit commission income
Materiality	- Overall materiality of £393k which represents 2% of net assets.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations
Valuation of the pre-1998 insurance contract liabilities (2020: £6m, 2019: £6.9m) *Refer to the Accounting policies (page 23); and Note 21 of the Financial Statements (page 41)* 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 incurred but not reported ("IBNR") elements of claims. Since Pre-1998 claims include Physical and sexual abuse ("PSA") claims therefore there is significant uncertainty in the calculation of these liabilities and they are not reinsured.	We performed walkthroughs to understand the claims liability valuation processes and identified key controls in place; In conjunction with our actuarial specialists we assessed the methodology, key assumptions and judgements used by Management, including the key sensitivities and uncertainties in the valuation of the pre-1998 reserves; In particular we: - Assessed the Company's methodology and verified the key outputs from the model. - Reviewed key metrics from the inputs to, and outputs from the valuation models. - Checked assumptions for reasonableness and compared against the 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.	We concluded that the methedology used by management in the valuation of the pre-1998 insurance contract liabilities was in line with market practice and that it is appropriate for the size and complexity of the underlying risk exposure. We determined that the the actuarial assumptions used by management in the valuation of the pre-1998 IBNR are reasonable based on the analysis of experience to date, industry practice and the financial reporting and regulatory requirements

	We read Management's commentary on the change in the reserves for the National Children's Homes (NCH) and non-NCH portfolios, since 31 December 2019; 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; 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. We agreed a sample of pre-1998 PSA outstanding claims to the underlying claims files. We read all legal correspondence and considered any impact on insurance contract liabilities.	
Risk	**Our response to the risk**	**Key observations**
Estimates involved in the calculation of profit commission income (2020: £2.5m, 2019: £2.2m) *Refer to the Accounting policies (page 25); and Note 6 of the Financial Statements (page 37*) Profit share commission is split 50:50 between EIO and the Company. 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.	We read the profit share agreement in place to obtain an understanding as to how it should operate; We verified the mathematical accuracy of the calculation performed by management and tied back to the methodology set out in the agreement; In conjunction with our actuarial specialists, we performed testing on the IBNR calculation for accident years 1998 and post; in particular we: - Assessed the methodology for reasonableness and identified the key assumptions in the analysis. We audited the reasonableness of those key assumptions by comparing against the Company's recent historical claim experience and against our market benchmarks. - Tested the calculation of reinsurance recoveries on IBNR and checked that this calculation was reasonable given the EIO reinsurance program in place; - Performed independent claims reprojections of the post-1998 property and liability excluding PSA classes of business. We obtained a confirmation from EIO for the amount of profit commission for the year. We read the Board minutes where the final commission figure is agreed.	We determined that the profit commission is calculated correctly in line with the terms agreed with EIO and reported accurately in the Financial Statements.

In the prior year, our auditor's report included a key audit matter in relation to Covid-19. In the current year, we no longer deem this to be a key audit matter but have considered the impact of Covid-19 on the areas impacted by the KAMs above.

Independent Auditor's Report

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 £393k (2019: £344k), which is 2% (2019: 2%) of net assets. We believe that net assets provides us with both the regulatory strength of the entity and the ability to continue to make the grants and meet the entities charitable objectives.

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2019: 50%) of our planning materiality, namely £294k (2019: £172k). We have set performance materiality at this percentage due to having noted no misstatements in the previous year and the expectation that corrected and uncorrected misstatements will be below 25% of performance materiality in the current year.

Reporting threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £19k (2019: £17k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

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

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the 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.

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
- 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 11 and 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not dete in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional mis in respect to irregularities, considered to be non-compliance with laws and regulations, are to obtain of detecting irregularities, including fraud is detailed below.

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are direct laws and regulations related to elements of the Companies Act 2006 and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').
- We understood how Methodist Insurance PLC is complying with those frameworks by making enquiry of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees and inquiring about the Company's methods of enforcing and monitoring compliance with such policies.

- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by considering the controls that the Company has established to address risks identified by the Company, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, performance targets, economic or external pressures and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk, including the procedures over the actuarial assumptions and profit commission noted under the Key audit matters section above. With regard to revenue recognition fraud risk we tied back all the gross premium income received to cash received during the year and additional procedures included testing a sample of manual journals. We have also agreed the monthly journal upload of investment income into the general ledger to investment managers reports. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiry of senior management and the Audit Committee for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent noncompliance 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. We have also reviewed minutes of the Board and its committees, the complaints log and the quartery Internal Audit updates presented to the Audit Committee.
- The Company operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

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

Other matters we are required to address

- Following the recommendation from the audit committee we were appointed by the company on 14 November 2019 to audit the financial statements for the year ending 31 December 2019 and subsequent financial periods.
  The period of total uninterrupted engagement including previous renewals and reappointments is 2 years, covering the years ending 31 December 2019 to 31 December 2020.
- 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:

Statement of Profit or Loss

for the year ended 31 December 2020

	Notes	2020	2019
Revenue		£	£
Gross written premiums	5	9,613,240	10,149,656
Outward reinsurance premiums	5	(9,613,240)	(10,149,656)
Net earned premiums	5	-	-
Commission income	6	2,763,686	2,273,048
Net investment return	7	2,551,530	3,061,859
Total revenue		5,315,216	5,334,907
Expenses			
Claims and change in insurance liabilities	8	(1,436,318)	(2,435,729)
Reinsurance recoveries	8	1,477,300	2,726,786
Commissions and other acquisition costs	9	(63,125)	(91,476)
Other operating and administrative expenses	10	(264,596)	(243,734)
Total operating expenses/(income)		(286,739)	(44,153)
Operating profit	11	5,028,478	5,290,754
Charitable grants	14	(3,000,000)	(5,005,000)
Profit/(loss) before tax		2,028,478	285,754
Tax (expense)/credit	15	(336,243)	9,265
Profit after tax, being total comprehensive income for the year, attributable to equity holders		1,692,235	295,019

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

The Company had no recognised income or expense during the current financial year and the preceding financial year other than that included in the statement of profit or loss. Accordingly, no separate statement of comprehensive income has been presented, profit after tax being total comprehensive income for the year, attributable to equity holders.

Statement of Financial Position

at 31 December 2020

	Notes	2020	2019
Assets		**£**	£
Financial investments	17	**21,592,781**	20,884,047
Reinsurers' share of insurance contract liabilities	21	**12,914,555**	14,314,443
Other assets	18	**1,581,535**	1,399,929
Cash and cash equivalents	19	**3,261,778**	2,902,559
Total assets		**39,350,649**	39,500,978
Equity			
Share capital	20	**112,500**	112,500
Retained earnings		**18,773,389**	17,081,342
Total shareholders' equity		**18,885,889**	17,193,842
Liabilities			
Insurance contract liabilities	21	**19,398,547**	21,230,015
Deferred tax liabilities	22	**-**	27,710
Current tax liabilities		**359,609**	27,193
Other liabilities	23	**706,603**	1,022,218
Total liabilities		**20,464,759**	22,307,136
Total shareholders' equity and liabilities		**39,350,649**	39,500,978

The financial statements of Methodist Insurance plc, company registration number 00006369, on pages 19 to 46 were approved and authorised for issue by the Board of Directors on 25 March 2021 and signed on its behalf by:

A.G.Gibbs *Chairman*

M.G.Angell *Director*

Statement of Changes in Equity

for the year ended 31 December 2020

	Notes	Share capital £	Retained earnings £	Total £
At 1 January 2019		112,500	16,786,511	16,899,011
Profit for the year and total comprehensive income		-	295,019	295,019
Dividends	16	-	(188)	(188)
At 31 December 2019		112,500	17,081,342	17,193,842
Profit for the year		**-**	**1,692,235**	**1,692,235**
Dividends	16	**-**	**(188)**	**(188)**
At 31 December 2020		**112,500**	**18,773,389**	**18,885,889**

Statement of Cash Flows

for the year ended 31 December 2020

	Notes	2020	2019
		£	£
Profit before tax		**2,028,478**	285,754
Adjustments for:			
Net fair value gains on financial investments		**(2,327,670)**	(2,646,208)
Income from investments		**(321,614)**	(561,658)
Taxation (expense)/income	15	**(336,243)**	9,265
Changes in operating assets and liabilities:			
Net decrease in insurance contract provisions	21	**(1,831,468)**	(1,126,953)
Net decrease in reinsurers' share of contract provisions	21	**1,399,888**	339,721
Net increase in other assets		**(203,391)**	(186,410)
Net increase/(decrease) in other liabilities		**42,016**	(234,443)
Cash (used) by operations		**(1,550,004)**	(4,120,931)
Corporation tax paid		**(31,500)**	-
Net cash used by operating activities		**(1,581,504)**	(4,120,931)
Cash flows from investing activities			
Dividends received		**166,165**	373,726
Interest received		**177,235**	190,988
Sale of financial investments		**16,088,516**	8,634,763
Purchases of financial investments		**(14,491,005)**	(7,410,670)
Net cash from investing activities		**1,940,911**	1,788,807
Cash flows from financing activities			
Dividends paid to company's shareholders	16	**(188)**	(188)
Net cash used by financing activities		**(188)**	(188)
Net increase/(decrease) in cash and cash equivalents		**359,219**	(2,332,312)
Cash and cash equivalents at beginning of year		**2,902,559**	5,234,871
Cash and cash equivalents at end of year	19	**3,261,778**	2,902,559

Notes to the Financial Statements

1 Accounting policies

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

Basis of preparation

The Company's financial statements have been prepared with accounting policies applied in accordance with International Accounting Standards (IAS) in conformity with the requirements of the Companies Act 2006. 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 as seen from the 2020 experience has not materially impacted the Company, and have considered stresses to the solvency and liquidity of the Company to 31 December 2022. 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 significantly more extreme than those experienced during 2020) 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. 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 IAS in conformity with the requirements of the Companies Act 2006.

New and revised standards

A number of amendments and improvements to accounting standards have been issued by the International Accounting Standards Board (IASB) with an effective date of on or after 1 January 2020, and are therefore applicable for the 31 December 2020 financial statements. None had a significant impact on the Company.

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 2023, 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.*

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, *Financial Instruments*	Provides a new model for the classification and measurement of financial instruments, a single, forward-looking ‘expected loss’ impairment model and a reformed approach to hedge accounting.	It is expected that equity instruments will continue to be measured at fair value through profit or loss. There is a possibility that the measurement of certain debt instruments will change to amortised cost or fair value through other comprehensive income, although this is being assessed. The Company is eligible for and has applied 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 2023 for insurers inline with the effective date of IFRS 17.
Accounting Standard	**Key requirements**	**Expected impact on financial statements**	**Effective date**
IFRS 17, *Insurance Contracts*	Requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts.	IFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. The standard was issued in May 2017 as replacement for IFRS 4, Insurance Contracts and the impact of the standard on the financial statements is being assessed. The Company's long-term business is expected to be the most affected by the new standard. The company expects to be able to use the simplified premium allocation approach to the majority of its general business insurance contracts, which applies to contracts with a coverage period of one year or less. Amendments to IFRS 17 that had been proposed by the IASB in January 2019, have been issued in June 2020.	Applicable to annual reporting periods beginning on or after 1 January 2023.

Amendments to other standards in issue but not yet effective are not expected to materially impact the Company.

Use of estimates

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements. Although these estimates are based on management’s best knowledge of current events and actions, actual results ultimately may differ from those estimates. Those estimates which have the most material impact on the financial statements are disclosed in note 2.

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.

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. No such provision was made at 2020 or 2019 year-ends

Reinsurance

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

The Company has protection cover with EIO that limits the Company’s liability to adverse development in relation to pre-1998 claims.

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 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.

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.

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.

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.

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, climate change and crime. Individual claims can vary in amount since the properties insured are diverse in both size and nature. The cost of repairing property varies according to the extent of damage, cost of materials and labour charges.

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

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

(ii) *Liability classes*

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

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

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			
		Property	**Liability**	**Accident**	**Total**
		£	**£**	**£**	**£**
2020					
United Kingdom	Gross	**7,112,934**	**2,088,121**	**330,024**	**9,531,079**
	Net	**-**	**-**	**-**	**-**
Republic of Ireland	Gross	**50,107**	**30,216**	**1,838**	**82,161**
	Net	**-**	**-**	**-**	**-**
Total	Gross	**7,163,041**	**2,118,337**	**331,862**	**9,613,240**
	Net	**-**	**-**	**-**	**-**
2019					
United Kingdom	Gross	7,266,322	2,155,890	334,654	9,756,866
	Net	-	-	-	-
Republic of Ireland	Gross	265,091	116,078	11,621	392,790
	Net	-	-	-	-
Total	Gross	7,531,413	2,271,968	346,275	10,149,656
	Net	-	-	-	-

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 in preparation for the UK leaving the EU. This process commenced in March 2020 and explains the reduction in Republic of Ireland premiums written during the period.

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.

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 has 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, other than a consideration on the impact of Covid-19. The Covid-19 pandemic has created an additional and unexpected uncertainty to the business during 2020. There have been a number of policy lapses, mainly in relation to the Commercial niche and credit control has been slightly impacted with the number of first defaults and Direct debit Payment Holiday requests increasing. The investment markets have shown increased volatility during the outbreak but 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 and any further lockdowns.

Notes to the Financial Statements

Categories of financial instruments

	Financial assets		Financial liabilities		Non-financial	
	Designated at fair value	Loans and receivables	Designated at fair value	At cost	assets and liabilities	Total
As at 31 December 2020	**£**	**£**	**£**	**£**	**£**	**£**
Financial investments	**21,591,783**	**-**	**-**	**-**	**998**	**21,592,781**
Other assets	**-**	**1,577,242**	**-**	**-**	**4,293**	**1,581,535**
Cash and cash equivalents	**-**	**3,261,778**	**-**	**-**	**-**	**3,261,778**
Other liabilities	**-**	**-**	**(256,646)**	**(77,157)**	**(372,800)**	**(706,603)**
Total	**21,591,783**	**4,839,020**	**(256,646)**	**(77,157)**	**(367,509)**	**25,729,491**
Net other liabilities						**(6,843,602)**
Net assets						**18,885,889**
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 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.

	2020			2019		
	SPPI financial assets	**Other financial assets**	**Total financial assets**	SPPI financial assets	Other financial assets	Total financial assets
	£	**£**	**£**	£	£	£
Financial Investments	**7,766,815**	**13,824,968**	**21,591,783**	**7,621,728**	13,261,321	20,883,049
Cash and cash equivalents	**3,261,778**	**-**	**3,261,778**	2,902,559	-	2,902,559
Other financial assets	**1,577,242**	**-**	**1,577,242**	1,403,662	-	1,403,662
Total fair value	**12,605,835**	**13,824,968**	**26,430,803**	11,927,949	13,261,321	25,189,270

There has been a £677,886 increase (2019: decrease £1,681,271) in the fair value of SPPI financial assets of the Company , and a £563,647 increase (2019: increase £973,804) 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			
	Level 1	**Level 2**	**Level 3**	**Total**
	£	**£**	**£**	**£**
As at 31 December 2020				
Financial investments				
Equity securities	13,702,474	-	-	13,702,474
Debt securities	7,766,815	-	-	7,766,815
Derivatives	-	122,494	-	122,494
	21,469,289	122,494	-	21,591,783
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
	20,867,066	15,983	-	20,883,049

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 2020, £122,494 (2019: £15,983) of derivative financial instruments were included in financial investments and £nil (2019: £21,426) 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:			
	1 year	**1-5 years**	**More than 5 years**	**Total**
	£	**£**	**£**	**£**
As at 31 December 2020				
Debt securities	**319,989**	**4,016,412**	**3,430,414**	**7,766,815**
Other assets including insurance receivables	**1,173,122**	**-**	**-**	**1,173,122**
Cash and cash equivalents	**3,261,778**	**-**	**-**	**3,261,778**
	4,754,889	**4,016,412**	**3,430,414**	**12,201,715**
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
	4,843,073	3,697,104	2,991,596	11,531,773

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

Credit and operational risk

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

- reinsurers' share of insurance liabilities (excluding provision for unearned premiums) and amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance intermediaries and policyholders;
- corporate bond counterparty default; and
- amounts due from EIO 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 EIO 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 2020	SPPI					Non-SPPI
	Debt instruments	Cash and cash equivalents	Reinsurance debtors	Other financial assets	Total SPPI	Financial Investments
AAA	**138,631**	**-**		**-**	**138,631**	**-**
AA	**6,142,327**	**-**		**-**	**6,142,327**	**-**
A	**-**	**3,261,778**	**9,980**	**85,598**	**3,357,356**	**122,494**
BBB	**142,279**	**-**	**-**	**-**	**142,279**	**-**
Below BBB	**-**	**-**	**-**	**-**	**-**	**-**
Not rated	**1,343,578**	**-**	**-**	**1,481,664**	**2,825,242**	**13,702,474**
	7,766,815	**3,261,778**	**9,980**	**1,567,262**	**12,605,835**	**13,824,968**

As at 31 December 2019	SPPI					Non-SPPI
	Debt instruments	Cash and cash equivalents	Reinsurance debtors	Other financial assets	Total SPPI	Financial Investments
AAA	132,602	-		-	132,602	-
AA	6,453,066	-		-	6,453,066	-
A	-	2,902,559	2,388	-	2,904,948	15,983
BBB	39,749	-	-	-	39,749	-
Below BBB	-	-	-	-	-	-
Not rated	996,312	-	-	1,401,273	2,397,585	13,245,338
	7,621,728	2,902,559	2,388	1,401,273	11,927,949	13,261,321

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. The

	2020	2019
US Dollar	**11,024,464**	9,514,010
Euro	**2,577,167**	2,752,532

This exposure is reduced through the use of currency forward contracts. The underlying value of these instruments are $7,821,216 (2019: $6,695,074) and €1,983,490 (2019: €1,287,507)

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 2020 was €330,308 (31 December 2019: €843,390).

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.

Market risk sensitivity analysis

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

		Potential increase/ (decrease) in profit after tax and equity	
Variable	**Change in variable**	**2020**	2019
		£	£
Interest rate risk	-100 basis points	**181,381**	273,600
	+100 basis points	**(347,516)**	(326,449)
Currency risk	-10.0%	**(342,764)**	(387,697)
	+10.0%	**342,764**	387,697
Equity price risk	-10.0%	**(1,109,900)**	(1,072,872)
	+10.0%	**1,109,900**	1,072,872

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% (2019: 19.00%).

Capital management

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

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

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

	2020	2019
	£	£
Gross written premiums	**9,613,240**	10,149,656
Change in the gross provision for unearned premiums	**287,008**	(192,925)
Gross earned premiums	**9,900,248**	9,956,731
Outward reinsurance premiums	**(9,613,240)**	(10,149,656)
Change in the provision for unearned premiums, reinsurers' share	**(287,008)**	192,925
Reinsurers' share of earned premiums	**(9,900,248)**	(9,956,731)
Net written premiums	**-**	-
Change in the net provision for unearned premiums	**-**	-
Net earned premiums	**-**	-

6 Commission income

	2020	2019
	£	£
Reinsurance commissions and profit commission	**2,580,469**	2,261,209
Other commissions	**183,217**	11,838
	2,763,686	2,273,048

During the year the Company received commission income of £6,677 (2019: £14,537) from its contracts with customers, which was recognised in respect of performance obligations satisifed at a point in time.

The company also received £173,181 (2019: £nil) from EIO in respect of the sale of the introducer rights of the Irish business in preparation for Brexit, of which £87,598 (2019: £nil) is included in other prepayments and accrued income, note 18.

Notes to the Financial Statements

7 Net investment return

	2020	2019
Investments at fair value through profit or loss:	£	£
- dividend income	155,774	367,503
- interest income	155,870	173,845
Other investments:		
- cash and cash equivalents (expense)/income	31,577	(10,755)
- other income received	4,073	4,182
Investment income	347,294	534,775
Fair value gains on investments at fair value through profit or loss	2,327,670	2,646,208
Investment expenses	(123,434)	(119,124)
Net investment return	2,551,530	3,061,859

Included within cash and cash equivalents income are exchange gains of £25,680 (2019: £26,883 losses).

8 Claims and change in insurance liabilities and reinsurance recoveries

	2020	2019
	£	£
Gross claims paid	2,999,863	3,729,185
Gross change in the provision for claims	(1,563,545)	(1,293,456)
Claims and change in insurance liabilities	1,436,318	2,435,729
Reinsurers' share of claims paid	(2,609,265)	(3,233,010)
Reinsurers' share of change in the provision for claims	1,131,965	506,225
Reinsurance recoveries	(1,477,300)	(2,726,786)
Claims and change in insurance liabilities, net of reinsurance	(40,982)	(291,057)

9 Commissions and other acquisition costs

	2020	2019
	£	£
Commission paid	63,125	91,476

10 Other operating and administrative expenses

	2020	2019
	£	£
Directors' emoluments	103,090	80,816
Legal and professional fees	61,455	52,341
Other expenses	100,051	110,577
	264,596	243,734

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

11 Operating profit

	2020	2019
Operating profit has been arrived at after (crediting)/charging:	£	£
- Net foreign exchange (gains)/losses	(25,680)	26,883
- Directors' emoluments	103,090	80,816

Notes to the Financial Statements

12 Auditor's remuneration

	2020	2019
	£	£
Fees payable to the company's auditor for:		
- The audit of the Company's annual accounts	70,000	75,000
Fees payable to the company's predecessor auditor for:		
- Non audit related services	-	7,039
	70,000	82,039

13 Employee information

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

14 Charitable grants

	2020	2019
	£	£
Charitable grants to Methodist funds and organisations	3,000,000	5,000,000
Charitable grants to other organisations	-	5,000
	3,000,000	5,005,000

15 Tax

	2020	2019
	£	£
UK corporation tax for the current financial year	369,255	30,609
Adjustment in respect of prior periods	(5,302)	-
Total current tax charge	363,953	30,609
Deferred taxation charge/(credit)	(27,710)	(39,874)
Tax charge/(credit)	336,243	(9,265)

Tax on the Company's profit before tax differs from the United Kingdom rate of corporation tax of 19.00% (2019: 19.00%) for the reasons set out in the following reconciliation:

	2020	2019
	£	£
Profit before tax	2,028,478	285,754
Tax calculated at the UK rate of 19.00% (2019: 19.00%).	385,411	54,293
Factors affecting charge for the period:		
Income not taxable	(33,487)	(74,052)
Unrealised gains on investments crystallising	2	4,546
Excess charitable donations and expenses not deductible for tax purposes	(13,644)	5,948
Impact of change in deferred tax rate	3,263	-
Adjustments in respect of prior periods	(5,302)	-
Tax charge/(credit)	336,243	(9,265)

Current tax has been provided at a rate of 19% for both the current and prior year. The corporation tax rate for the years starting 1 April 2020 and 2021 would remain at 19%. Deferred tax has been provided at a rate of 19% (2019: 17%).

Notes to the Financial Statements

16 Appropriations

	2020	2019
Amounts recognised as distributions to equity holders in the period:	£	£
Dividends	**188**	188

This equates to a dividend of 1p per share (2019: 1p).

17 Financial investments

	2020	2019
Financial investments at fair value through profit or loss	£	£
Equity securities:		
- listed	**13,702,474**	13,245,338
Debt securities:		
- government bonds	**6,423,237**	6,625,416
- listed	**1,343,578**	996,312
Derivative financial instruments	**122,494**	15,983
Investments in group undertakings		
Shares in subsidiary undertakings (see note 25)	**998**	998
Total financial investments	**21,592,781**	20,884,047

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

18 Other assets

	2020	2019
Receivables arising from insurance and reinsurance contracts:	£	£
- due from contract holders	**1,409,602**	1,258,833
- due from agents, brokers and intermediaries	**12,956**	46,491
Other receivables:		
- accrued interest	**44,506**	55,900
- other prepayments and accrued income	**114,471**	38,705
	1,581,535	1,399,929

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

	2020	2019
	£	£
Cash at bank and in hand	**272,847**	763,581
Short term bank deposits	**2,988,931**	2,138,978
	3,261,778	2,902,559

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

Notes to the Financial Statements

20 Called up share capital

	2020	2019
Issued, allotted and fully paid:	£	£
18,750 ordinary shares of £6, each fully paid	**112,500**	112,500

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

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

21 Insurance liabilities and reinsurance assets

Claims outstanding

	2020	2019
Gross	£	£
Claims outstanding	**13,681,386**	15,233,411
Unearned premiums	**5,717,161**	5,996,604
Total gross insurance liabilities	**19,398,547**	21,230,015
Recoverable from reinsurers		
Claims outstanding	**7,197,394**	8,317,839
Unearned premiums	**5,717,161**	5,996,604
Total reinsurers' share of insurance liabilities	**12,914,555**	14,314,443
Net		
Claims outstanding	**6,483,992**	6,915,572
Unearned premiums	**-**	-
Total net insurance liabilities	**6,483,992**	6,915,572
Gross insurance liabilities		
Current	**7,662,208**	8,778,079
Non-current	**11,736,339**	12,451,936
	19,398,547	21,230,015
Reinsurance assets		
Current	**7,662,208**	8,778,079
Non-current	**5,252,347**	5,536,364
	12,914,555	14,314,443

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.

(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. In addition to this mathematical approach, from time to time the management may elect to reflect short term uncertainties using scenario analyses. 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 £2,884,864 (2019: £3,181,285) gross and £2,884,864 (2019: £3,181,285) 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.

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

	2020		2019	
	Gross	**Net**	Gross	Net
	£000	**£000**	£000	£000
Liability	**220**	**-**	223	-
Property	**727**	**-**	731	-

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.

	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	2019 £000	2020 £000	Total £000
Estimate of ultimate claims:											
At end of year	6,148	6,205	4,289	5,158	7,472	3,765	3,666	4,757	4,169	2,979	
One year later	4,653	4,914	3,208	4,064	6,667	2,953	3,689	4,338	3,825		
Two years later	4,604	4,518	3,466	3,596	5,858	2,488	3,278	3,427			
Three years later	3,764	3,967	2,807	3,547	5,539	2,354	2,954				
Four years later	3,724	3,706	3,029	3,413	5,238	2,303					
Five years later	3,730	3,648	2,758	3,374	5,256						
Six years later	3,687	3,679	2,665	3,376							
Seven years later	3,642	3,680	2,718								
Eight years later	3,646	3,674									
Nine years later	3,695										
Current	3,695	3,674	2,718	3,376	5,256	2,303	2,954	3,427	3,825	2,979	34,206
Cumulative payments to date	(3,491)	(3,554)	(2,542)	(3,254)	(4,200)	(2,133)	(2,685)	(2,902)	(2,669)	(1,034)	(28,465)
Outstanding liability	204	120	176	122	1,056	170	269	525	1,156	1,945	5,742

Liability in respect of earlier years	7,602
Claims handling reserve	338
Total gross liability included in insurance liabilities in the balance sheet	13,681
Reinsurers' share of contract provisions	(7,197)
Total net liability	6,484

(viii) Movements in insurance liabilities and reinsurance assets

	Gross £	Reinsurance £	Net £
Claims outstanding			
At 1 January 2020	**15,233,412**	**(8,317,840)**	**6,915,572**
Exchange differences	**11,520**	**(11,520)**	**-**
Cash (paid)/received for prior year claims settled in the year	**(1,966,240)**	**1,575,642**	**(390,598)**
Change in prior year liabilities/reinsurance assets	**(1,542,353)**	**1,501,371**	**(40,982)**
Prior year liabilities/(reinsurance assets) at 31 December 2020	**11,736,339**	**(5,252,347)**	**6,483,992**
Current year claims/(recoveries)	**2,978,670**	**(2,978,670)**	**-**
Cash (paid)/received for current year claims settled in the year	**(1,033,623)**	**1,033,623**	**-**
Current year liabilities/(reinsurance assets) at 31 December 2020	**1,945,047**	**(1,945,047)**	**-**
At 31 December 2020	**13,681,386**	**(7,197,394)**	**6,483,992**
Provision for unearned premiums			
At 1 January 2020	**5,996,603**	**(5,996,603)**	**-**
Exchange differences	**7,566**	**(7,566)**	**-**
Movement in the year	**(287,008)**	**287,008**	**-**
At 31 December 2020	**5,717,161**	**(5,717,161)**	**-**
Claims outstanding			
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
Provision for unearned premiums			
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)	-

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

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 2019	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
Credit to income	(22,242)	(5,468)	(27,710)
At 31 December 2020	-	-	-

23 Other liabilities

	2020 £	2019 £
Creditors arising out of direct insurance operations	20,062	48,650
Creditors arising out of reinsurance operations	232,625	446,899
Derivative liabilities	-	21,426
Other creditors	375,761	392,330
Amounts owed to related parties	998	998
Accruals	77,157	111,915
	706,603	1,022,218
Current	705,605	1,021,220
Non-current	998	998

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

The creditors arising out of reinsurance operations comprises £2,728,984 (2019: £2,799,344) payables net of £2,506,339 (2019: £2,354,832) receivables.

24 Related party transactions

The Company has a reinsurance treaty with EIO 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 EIO under which all administration expenses are borne by EIO.

The Company ceded premiums net of claims paid and commissions to the value of £6,867,971 (2019: £6,734,547) during the year to EIO, which also bore expenses of the Company's business of £1,985,660 (2019: £1,970,313). The reinsurers' share of technical provisions due from ElO as at 31 December 2020 is £12,914,555 (2019: £14,314,443) which consists of £5,717,161 (2019: £5,996,604) of unearned premium and £7,197,394 (2019: £8,317,839) of outstanding claims. At 31 December 2020 £210,484 was due to EIO (2019: £428,552). Information about key management personnel compensation is provided in note 10 to the financial statements. The company also received £173,181 (2019: £nil) from EIO in respect of the sale of the introducer rights of the Irish business in preparation for Brexit, of which £87,598 (2019: £nil) is included in other prepayments and accrued income, note 18, as at 31 December 2020.

Transactions and services with related parties are made on commercial terms. The Company has a letter of credit with EIO for £2,000,000 (2019: £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 2020 is as follows:

	Share Capital	Holding
Methodist Insurance Services Limited	Ordinary shares	99.8%

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

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Bristol & West Midlands Winner
Christ Church, Ross-on-Wye

Randall Peers
Cymru Wales Winner
Northop Hall Methodist Church

Maureen Clarke
East of England Winner
Capel St Mary Methodist Church

Community Hub Team
North East Winners
Hutton Rudby Methodist Church

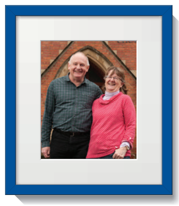
Alicia Rumsby
East Central Winner
Bladon Methodist Church

Job Club
Scotland & Shetland Winner and
National Runner up
Pollokshaws Methodist Church, Glasgow

Alison Stephens
South West Winner
Plymouth Methodist Central Hall

Roger Pettit
London Winner
Winchester Road Methodist Church

Rose Gosling
Yorkshire Plus Winner
Summerbridge Methodist Church



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