

REGISTRATION NUMBER: 00006369

METHODIST INSURANCE PLC

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REPORT AND ACCOUNTS 31 DECEMBER 2014

Methodist Insurance PLC

Report and Accounts 31 December 2014

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Methodist Insurance PLC specialises in the insurance of properties belonging to the Methodist Church and its associated organisations and is broadening its base to serve a wider public.

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

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

Methodist Insurance PLC

Officers and Professional Advisers

Directors

D. S. Walton DL, LLB *Chairman*
A. G. Gibbs FCA, MA *Deputy Chairman*
M. G. Angell ACII (*Appointed 5 January 2015*)
Revd. L. J. Barriball
C. H. Boothman FRICS, MACostE
J. M. Coates ACII
D. M. Crompton ACII
Revd. P. H. Davis BA
J. M. Hamilton BSc (Econ), FIA

Company Secretary

Mrs R. J. Hall FCIS

General Manager

M. G. Angell ACII

Auditor

KPMG LLP

Registered Office

Beaufort House,
Brunswick Road,
Gloucester, GL1 1JZ

Head Office

St. Ann's House
St. Ann's Place
Manchester, M2 7LP
Tel: 0161 833 9696
Fax: 0161 833 1287

Company Registration Number

00006369

Methodist Insurance PLC

Chairman's Statement

Chairman's review of business operations

This has been another good year for the company, despite continuing market and other pressures.

The detailed financial results show a turnover of £10,481,161 (2013: £11,513,352) resulting in an operating profit of £1,749,975 (2013: £3,862,221). This fall on the prior year is primarily due to an adverse investment performance (down £1,233,648) and claims experience, where net incurred claims were up £1,105,457.

The company held £20,879,990 (2013: £20,990,811) in financial investments at the year end. In the year, the net investment return (a combination of net investment income and capital appreciation) was £670,619 (2013: £1,904,267). This was more or less a stand still year in investment terms as capital gains on the fixed interest portfolio, which performed strongly, were largely nullified by a fall in the capital value of the company's equities. This was a reversal of the situation last year and reflected the deteriorating prospect of a strong recovery from the recession precipitated by the failure of the financial system over six years ago now.

The market index total return on UK conventional gilts was 13.9%, while on UK equities the total return, which includes dividend income, was just 1.2%.

About 40% of the company's portfolio is held in bonds, predominantly index linked gilts, with some corporate bonds as well as conventional gilts. Most of these assets are held in a segregated 'Individual Capital Guidance' (ICG) portfolio to meet our prudential capital adequacy requirements as an insurance company. Collectively, the bond holdings in the ICG produced a positive total return of 8.2%.

The company's investments that are not in the ICG portfolio are held in the Uncommitted Capital (UC) portfolio and are mostly invested in UK equities. In recognition of the unrepresentative nature of the UK equity market in global terms, up to 20% of the UC portfolio may be invested directly in overseas equities. The benchmark is made up of the FTSE All Share Index (80%), the FTA British Government All Stock Index (15%) and Cash (5%). The total return on the Company's UC portfolio, comprising UK and overseas equities and some corporate bonds was 0.4%, underperforming the benchmark return of 3.0%.

We remain committed to supporting the Methodist Church in Britain and Ireland and its wider community. This takes a number of forms but we continue to develop our 'Dialogue' newsletter which gives useful practical information for churches and charities. We are pleased that local churches continue to make applications for our small charitable grants where they are developing their buildings for mission.

The company has paid grants to the Methodist Church nationally and locally totalling £1,605,000 (2013: £4,005,000) resulting in the retained profit of £144,975 before tax which is £644,975 greater than originally budgeted.

I offer the grateful thanks of the Board to John Coates for all his efforts on behalf of the company throughout his period of leadership; he has retired as an executive director but remains on the Board in a non-executive capacity.

We have welcomed Michael Angell in his place and continue to value the cheerful commitment of all our staff and the support of our colleagues at Ecclesiastical Insurance.

This provides us with confidences as a Board as we face regulatory changes and competitive challenges in the coming year.

David S. Walton

Chairman on behalf of the Directors

Methodist Insurance PLC

Strategic Report

The directors present their strategic report for the year ended 31 December 2014.

Objective and strategy

Methodist Insurance PLC 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 principal activity of the company is the transaction of fire, accident and ancillary liability insurance.

The mission of the company is to run an ethical and profitable general insurance company for the benefit of the Methodist Church by underwriting its cost of risk and providing risk management advice, thus helping communities create safe environments for worship, witness and service.

All business accepted by the company after July 1998 is fully reinsured with Ecclesiastical Insurance Office plc with the exception of terrorism cover which is reinsured through Pool Re. It is anticipated that the activities of the company will remain unchanged for the foreseeable future.

Review of business performance

The results of the company for the year are shown in the statement of profit or loss on page 9.

Premium growth

Gross written premiums fell to £10,481,161 (2013: £11,513,352) representing a decrease of 9.0% on the previous year. Premium decline can be attributed to the loss of two large customers to competitors.

Claims ratio

Our claims ratio (incurred claims to earned premiums) of 37.9% (2013: 28.0%) shows a 9.9 point increase on the previous year. The claims performance has been affected by weather claims in the early months of the year, whilst also suffering large losses which significantly affected performance.

Profit commission

The reinsurance treaty with Ecclesiastical Insurance Office continues. The profit commission receivable for the year based on the sharing of the net underwriting result was £2,484,519 (2013: £2,185,702) benefitting from the reinsurance programme and reduced expenses.

Investment return

Despite a small decline in the stock market in 2014 our underlying investments delivered a positive return. We continue to monitor and review the investment strategy to mitigate the risk of future losses. The net investment return was £670,619 (2013: £1,904,267) as the stock market shrunk from its highest point for five years during 2013.

Grants

The aim of the company and the directors continues to be to support Methodist organisations. During 2014 charitable grants of £1,605,000 (2013: £4,005,000) were paid or accrued.

Retained profits

The factors outlined above have all had an influence on the results for the year, amounting to a profit before tax of £144,975 (2013: £142,779 loss). After the impact of tax the amount of retained earnings has increased by £129,093 (2013: £116,588 decrease). We believe the company remains well capitalised as examined in note 4.

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

Methodist Insurance PLC

Strategic Report

Principal risks and uncertainties

The principal risks and uncertainties are:

- the company has adverse development protection cover from Ecclesiastical Insurance Office plc. The company is exposed to the risk of claims being incurred above the current level of provisions, up to the point at which the reinsurance cover takes effect;
- the impact on profit commission if there are underwriting losses or significantly adverse claims experience. This is disclosed further under note 3 – Insurance risk;
- investment returns and the security of the investment portfolio. Financial risk is discussed in more detail in note 4 - Financial risk and capital management; and
- the reliance on Ecclesiastical Insurance Office plc from an operational perspective. This is highlighted further in note 4.

By order of the board



Mrs R. J. Hall
Secretary
19 March 2015

Methodist Insurance PLC

Directors' Report

The directors present their annual report and financial statements for the year ended 31 December 2014.

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 Ecclesiastical Insurance Office plc, who also provide administrative services within a profit share arrangement. Therefore, except for investment, credit and counterparty risk, and the adverse development of certain pre - 1998 insurance risks, its financial risks are ultimately borne by the Ecclesiastical group, which has considerable financial resources. As a consequence, the directors believe the group is well placed to manage such risks in the foreseeable future, despite the current uncertain economic outlook. The directors also consider they have provided adequately for risks not reinsured with Ecclesiastical Insurance Office plc and, as such, they continue to adopt the going concern basis in preparing the Annual 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 2014, absorbing the sum of £187 (2013: £187). This equates to a dividend of 1p per share (2013: 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.

Revd. P. H. Davis and Revd L. J. Barriball retire by rotation and, being eligible, offer themselves for re-election.

Mr. M. G. Angell was appointed to the board as a director on 5 January 2015.

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

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and applicable law and have elected to prepare the financial statements on this basis. 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 the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping 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 the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

Methodist Insurance PLC

Directors' Report

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 Companies Act 2006.

KPMG LLP were appointed as Auditors of the Company in accordance with Section 489 of the Companies Act 2006 with effect from 29 May 2014. A resolution proposing that KPMG LLP be reappointed as Auditors of the Company will be put to the Annual General Meeting.

By order of the board



Mrs R. J. Hall
Secretary
19 March 2015

Methodist Insurance PLC

Independent Auditor's Report

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

We have audited the financial statements of Methodist Insurance PLC for the year ended 31 December 2014 set out on pages 9 to 35. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

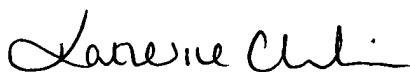
Opinion on other matters prescribed by the Companies Act 2006

In our opinion 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.

Matters on which we are required to report by exception

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

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



Katherine Clinton (Senior Statutory Auditor)
for and on behalf of KPMG LLP
Statutory Auditor
1 St Peters Square
Manchester, M2 3AE
19 March 2015

Methodist Insurance PLC

Statement of Profit or Loss

for the year ended 31 December 2014

| | Notes | 2014 £ | 2013 £ |
|---|-------|--------------------|------------------|
| Revenue | | | |
| Gross written premiums | 5 | 10,481,161 | 11,513,352 |
| Outward reinsurance premiums | 5 | (10,481,161) | (11,513,352) |
| Net change in provision for unearned premiums | 5 | - | - |
| Net earned premiums | 5 | - | - |
| Commission income | 6 | 2,607,178 | 2,332,702 |
| Net investment return | 7 | 670,619 | 1,904,267 |
| Total revenue | | 3,277,797 | 4,236,969 |
| Expenses | | | |
| Claims and change in insurance liabilities | 8 | (4,374,196) | (3,217,080) |
| Reinsurance recoveries | 8 | 3,128,262 | 3,076,604 |
| Commissions and other acquisition costs | 9 | (108,723) | (121,869) |
| Other operating and administrative expenses | | (173,165) | (112,403) |
| Total operating expenses | | (1,527,822) | (374,748) |
| Operating profit | 10 | 1,749,975 | 3,862,221 |
| Charitable grants | 13 | (1,605,000) | (4,005,000) |
| Profit/(loss) before income tax | | 144,975 | (142,779) |
| Income tax recoverable | 14 | 9,105 | 50,378 |
| Profit/(loss) attributable to equity holders | | 154,080 | (92,401) |

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

Methodist Insurance PLC

Statement of Comprehensive Income

for the year ended 31 December 2014

| | 2014 | 2013 |
|--|-----------------|-----------------|
| | £ | £ |
| Profit/(loss) for the year after income tax | 154,080 | (92,401) |
| Other comprehensive income | | |
| Actuarial losses relating to pension fund | (156,000) | (71,000) |
| Elimination of pension fund movement | 125,000 | 41,000 |
| Related tax | 6,200 | 6,000 |
| Items that will not be reclassified to profit or loss | (24,800) | (24,000) |
| Available for sale financial assets - net change in fair value | - | 75,050 |
| Cumulative gain transferred to the statement of profit or loss on disposal of available for sale investments | (75,050) | - |
| Related tax | 16,136 | (16,136) |
| Items that may be reclassified subsequently to profit or loss | (58,914) | 58,914 |
| Other comprehensive income, net of tax | (83,714) | 34,914 |
| Total comprehensive income for the year | 70,366 | (57,487) |

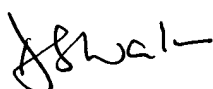
Methodist Insurance PLC

Statement of Financial Position

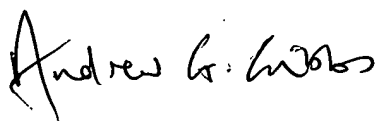
at 31 December 2014

| | Notes | 2014 £ | 2013 £ |
|---|-------|-------------------|-------------------|
| Assets | | | |
| Financial investments | 17 | 20,879,990 | 20,990,811 |
| Reinsurers' share of insurance contract liabilities | 21 | 14,783,037 | 16,075,904 |
| Current tax recoverable | | 5,886 | 2,435 |
| Other assets | 18 | 1,023,373 | 1,598,294 |
| Cash and cash equivalents | 19 | 3,843,167 | 2,571,045 |
| Total assets | | 40,535,453 | 41,238,489 |
| Equity | | | |
| Share capital | 20 | 112,500 | 112,500 |
| Available for sale reserve | | - | 58,914 |
| Retained earnings | | 17,092,385 | 16,963,292 |
| Total shareholders' equity | | 17,204,885 | 17,134,706 |
| Liabilities | | | |
| Insurance contract liabilities | 21 | 22,692,810 | 22,897,693 |
| Deferred tax liabilities | 22 | 204,243 | 235,684 |
| Other liabilities | 23 | 433,515 | 970,406 |
| Total liabilities | | 23,330,568 | 24,103,783 |
| Total shareholders' equity and liabilities | | 40,535,453 | 41,238,489 |

The financial statements of Methodist Insurance PLC, company registration number 00006369, on pages 9 to 35 were approved and authorised for issue by the Board of Directors on 19 March 2015 and signed on its behalf by:



D. S. Walton *Chairman*



A. G. Gibbs *Deputy Chairman*

Methodist Insurance PLC

Statement of Changes in Equity

for the year ended 31 December 2014

| | Share capital £ | Available for sale reserve £ | Retained earnings £ | Total £ |
|----------------------------|-----------------------|------------------------------------|---------------------------|-------------------|
| At 1 January 2013 | 112,500 | - | 17,079,880 | 17,192,380 |
| Loss for the year | - | - | (92,401) | (92,401) |
| Other comprehensive income | - | 58,914 | (24,000) | 34,914 |
| Dividends | - | - | (187) | (187) |
| At 31 December 2013 | 112,500 | 58,914 | 16,963,292 | 17,134,706 |
| Profit for the year | - | - | 154,080 | 154,080 |
| Other comprehensive income | - | (58,914) | (24,800) | (83,714) |
| Dividends | - | - | (187) | (187) |
| At 31 December 2014 | 112,500 | - | 17,092,385 | 17,204,885 |

Methodist Insurance PLC

Statement of Cash Flows

for the year ended 31 December 2014

| | 2014 | 2013 |
|---|------------------|--------------------|
| | £ | £ |
| Profit/(loss) before tax | 144,975 | (142,779) |
| <i>Adjustments for:</i> | | |
| Net fair value gains on financial investments | (118,846) | (1,309,869) |
| Income from investments | (660,961) | (664,928) |
| <i>Changes in operating assets and liabilities:</i> | | |
| Net (decrease)/increase in insurance contract provisions | (204,883) | 564,022 |
| Net decrease/(increase) in reinsurers' share of contract provisions | 1,292,867 | (632,898) |
| Net decrease/(increase) in other assets | 518,568 | (30,056) |
| Net (decrease)/increase in other liabilities | (536,891) | 21,126 |
| Cash generated/(used) by operations | 434,829 | (2,195,382) |
| Dividends received | 423,711 | 366,482 |
| Interest received | 262,603 | 277,692 |
| Income tax paid | (3,451) | (233,751) |
| Net cash from/(used by) operating activities | 1,117,692 | (1,784,959) |
| Cash flows from investing activities | | |
| Sales of financial investments | 5,812,750 | 3,047,904 |
| Purchases of financial investments | (5,658,133) | (4,400,305) |
| Net cash from/(used by) investing activities | 154,617 | (1,352,401) |
| Cash flows from financing activities | | |
| Dividends paid to company's shareholders | (187) | (187) |
| Net cash used by financing activities | (187) | (187) |
| Net increase/(decrease) in cash and cash equivalents | 1,272,122 | (3,137,547) |
| Cash and cash equivalents at beginning of year | 2,571,045 | 5,708,592 |
| Cash and cash equivalents at end of year | 3,843,167 | 2,571,045 |

Methodist Insurance PLC

Notes to the Financial Statements

1 Accounting policies

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

Basis of preparation

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

The company has elected not to produce consolidated financial statements. The subsidiary disclosed in note 26 is dormant, having not traded since incorporation. The exemption in Companies Act 2006 s405(2) is taken as the subsidiary is not material to the financial statements.

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

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

New and revised standards

The Standards adopted in the current year are either outside the scope of company transactions or do not significantly impact the company.

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

| Accounting Standard | Key requirements | Expected impact on financial statements | Effective date |
|---|---|--|---|
| IFRS 9, <i>Financial Instruments</i> | The final phase of IFRS 9 was issued in the year and the Standard has now been issued in full. It 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 debt instruments will change to amortised cost or fair value through other comprehensive income, although this is being assessed and depends on the conclusion of IFRS 4 Phase II, the IASB's ongoing insurance accounting project. | Annual periods beginning on or after 1 January 2018 |
| IFRS 15, <i>Revenue from Contracts with Customers</i> | Establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. | Insurance contracts are outside the scope of the Standard. The impact on fee and commission income is being assessed. There is the possibility of commission income being recognised earlier if a contract is approved and consideration is probable. Variable consideration will be recognised earlier if receipt is considered highly probable. | Annual periods beginning on or after 1 January 2017 |

The other Standards in issue but not yet effective are not expected to significantly 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.

Methodist Insurance PLC

Notes to the Financial Statements

Foreign currency translation

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

Product classification

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

Premium income

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

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

Fee and commission income

Fee and commission income primarily comprises reinsurance commissions receivable and is recognised on the trade date.

Net investment return

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

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

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.

Methodist Insurance PLC

Notes to the Financial Statements

(iii) *Liability adequacy*

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

Reinsurance

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

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

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

Financial instruments

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

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

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

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

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. Investments that do not have a quoted market price in an active market and whose value cannot be reliably measured, are classified as available-for-sale financial assets.

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. Investments for which fair values cannot be measured reliably are recognised at cost less impairment.

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.

Methodist Insurance PLC

Notes to the Financial Statements

Receivables arising from insurance and reinsurance contracts

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

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

Cash and cash equivalents

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

Provisions and contingent liabilities

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset when the reimbursement is more probable than not.

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 the future obligation is probable but the amount cannot be reliably estimated.

Employee benefits

The company contributes to a defined benefit pension scheme providing benefits based on final pensionable salary for which Ecclesiastical Insurance Office plc is the sponsoring employer. The assets of the scheme are held separately from those of the company, being invested with an insurance company under a Group Funding policy. The contributions are determined, on the basis of triennial valuations, by an independent qualified actuary and pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the statement of profit or loss so as to spread the regular cost over the service lives of employees, in accordance with the advice of qualified actuaries. The pension obligation is measured as the present value of the estimated future cash outflows using a discount rate based on market yields for high quality corporate bonds.

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

Income tax

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

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

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

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

Deferred tax assets and liabilities are not discounted.

Appropriations

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

Methodist Insurance PLC

Notes to the Financial Statements

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.

Pension benefits

The cost of these benefits and the present value of the pension benefit liabilities depend on factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the charge to profit or loss for these benefits include the discount rate. Any changes in these assumptions will impact profit or loss and may affect planned funding of the pension plans. The company determines an appropriate discount rate at the end of each year, to be used to determine the present value of estimated future cash outflows expected to be required to settle the pension benefit obligations.

In determining the appropriate discount rate, the company considered interest rates of high quality corporate bonds that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for the pension and post-employment benefit costs and credits are based in part on current market conditions. Additional information is disclosed in note 16.

3 Insurance risk

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

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

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

General business risks

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

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

Methodist Insurance PLC

Notes to the Financial Statements

Frequency and severity of claims

(i) Property classes

For property insurance contracts, the number of claims made can be affected by weather events, changes in climate and crime rates. Individual claims can vary in amount since the property insured is 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 or recession related events.

(ii) Liability classes

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

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

Concentrations of risk

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

| | | | Type of risk | | | Total £ |
|----------------|-------|--|---------------|----------------|---------------|------------|
| | | | Property £ | Liability £ | Accident £ | |
| 2014 | | | | | | |
| United Kingdom | Gross | | 8,332,246 | 1,457,244 | 274,452 | 10,063,942 |
| | Net | | - | - | - | - |
| Eire | Gross | | 294,149 | 113,879 | 9,191 | 417,219 |
| | Net | | - | - | - | - |
| Total | Gross | | 8,626,395 | 1,571,123 | 283,643 | 10,481,161 |
| | Net | | - | - | - | - |
| 2013 | | | | | | |
| United Kingdom | Gross | | 8,896,744 | 1,851,428 | 273,315 | 11,021,487 |
| | Net | | - | - | - | - |
| Eire | Gross | | 366,951 | 115,283 | 9,631 | 491,865 |
| | Net | | - | - | - | - |
| Total | Gross | | 9,263,695 | 1,966,711 | 282,946 | 11,513,352 |
| | Net | | - | - | - | - |

Methodist Insurance PLC

Notes to the Financial Statements

Sources of uncertainty in the estimation of future claim payments

(i) *Property classes*

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

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

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

(ii) *Liability classes*

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

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

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

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

Note 21 presents the development of the estimate of ultimate claim cost for public and employers' liability claims occurring in a given year. This gives an indication of the accuracy of the estimation technique for incurred claims.

(iii) *Sources of uncertainty*

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

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

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

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

(v) *Special provisions for latent claims*

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

Methodist Insurance PLC

Notes to the Financial Statements

4 Financial risk and capital management

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

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

Categories of financial instruments

| | Financial assets | | | Financial liabilities at | Non-financial assets and | |
|-------------------------------|-------------------|----------------|------------------|--------------------------|--------------------------|-------------------|
| | Designated at | Available | Loans and | amortised cost | liabilities | Total |
| | fair value | for sale | receivables | | | |
| | £ | £ | £ | £ | £ | £ |
| As at 31 December 2014 | | | | | | |
| Financial | | | | | | |
| Investments | 20,878,992 | - | - | - | 998 | 20,879,990 |
| Other assets | - | - | 1,006,162 | - | 17,211 | 1,023,373 |
| Cash and cash equivalents | - | - | 3,843,167 | - | - | 3,843,167 |
| Other liabilities | - | - | - | (254,098) | (179,417) | (433,515) |
| Total | 20,878,992 | - | 4,849,329 | (254,098) | (161,208) | 25,313,015 |
| Net other liabilities | | | | | | (8,108,130) |
| Net asset | | | | | | 17,204,885 |
| As at 31 December 2013 | | | | | | |
| Financial | | | | | | |
| Investments | 20,889,763 | 100,050 | - | - | 998 | 20,990,811 |
| Other assets | - | - | 1,580,979 | - | 17,315 | 1,598,294 |
| Cash and cash equivalents | - | - | 2,571,045 | - | - | 2,571,045 |
| Other liabilities | - | - | - | (760,621) | (209,785) | (970,406) |
| Total | 20,889,763 | 100,050 | 4,152,024 | (760,621) | (191,472) | 24,189,744 |
| Net other liabilities | | | | | | (7,055,038) |
| Net asset | | | | | | 17,134,706 |

Fair value hierarchy

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

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

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

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

All financial investments held by the company and designated at fair value are classified as level 1. All available-for-sale financial instruments were sold in the financial period.

Methodist Insurance PLC

Notes to the Financial Statements

Interest rate risk

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

| | Maturing within: | | | Total £ |
|--|------------------|------------------|---------------------------|-------------------|
| | 1 year £ | 1-5 years £ | More than 5 years £ | |
| As at 31 December 2014 | | | | |
| Debt securities | - | 167,775 | 7,779,048 | 7,946,823 |
| Other assets including insurance receivables | 823,164 | - | - | 823,164 |
| Cash and cash equivalents | 3,843,167 | - | - | 3,843,167 |
| | 4,666,331 | 167,775 | 7,779,048 | 12,613,154 |
| As at 31 December 2013 | | | | |
| Debt securities | - | 2,699,508 | 5,589,907 | 8,289,415 |
| Other assets including insurance receivables | 1,126,987 | - | - | 1,126,987 |
| Cash and cash equivalents | 2,571,045 | - | - | 2,571,045 |
| | 3,698,032 | 2,699,508 | 5,589,907 | 11,987,447 |

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

Credit and operational risk

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

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

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

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

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. These reports are scrutinised to assess exposure in respect of aged or outstanding balances. These accounts are primarily brokers, which are in turn monitored via credit reference agencies and considered to pose minimal risk of default.

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

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

Methodist Insurance PLC

Notes to the Financial Statements

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

Liquidity risk

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

Financial liabilities of the company all mature within one year. An estimate of the timing of the net cash outflows resulting from insurance contracts is provided in note 21.

Currency risk

The company operates in the UK and Eire. Its exposure to foreign exchange risk arises primarily 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 all designated in euros. The total carrying amount of those assets is €2,043,251 (2013: €3,019,000), liabilities total €1,034,534 (2013: €2,021,400).

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:

| Variable | Change in variable | Potential increase/ (decrease) in profit after tax | |
|--------------------|--------------------|--|-----------|
| | | 2014 | 2013 |
| | | £ | £ |
| Interest rate risk | -100 basis points | 552,565 | 417,005 |
| | +100 basis points | (501,177) | (380,562) |
| Currency risk | -10.0% | (211,141) | (169,133) |
| | +10.0% | 211,141 | 169,133 |
| Equity price risk | -10.0% | (1,015,175) | (968,516) |
| | +10.0% | 1,015,175 | 968,516 |

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

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

- the value of fixed income investments will vary inversely with changes in interest rates;
- currency gains and losses will arise from a change in the value of sterling against all other currencies moving in concert; and
- change in profit is stated net of tax at the blended rate of 21.50% (2013: 23.25%).

Methodist Insurance PLC

Notes to the Financial Statements

Capital management

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

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

The company is required to comply with rules issued by the PRA and FCA. Regulatory capital, as published in the company's PRA return, must be in excess of the higher of two amounts. The first is an amount calculated by applying fixed percentages to premiums and claims. The second is an economic capital assessment by the company, which the PRA reviews and may amend by issuing Individual Capital Guidance (ICG). The company sets internal capital standards above the PRA's minimum requirement.

At 31 December 2014, capital resources available to meet PRA requirements totalled £17,179,000 (2013: £17,106,000). The company has complied with all externally imposed capital requirements throughout the year.

5 Net insurance premium

| | 2014 | 2013 |
|--|--------------|--------------|
| | £ | £ |
| Gross written premiums | 10,481,161 | 11,513,352 |
| Change in the gross provision for unearned premiums | 794,667 | (171,978) |
| Gross earned premiums | 11,275,828 | 11,341,374 |
| Outward reinsurance premiums | (10,481,161) | (11,513,352) |
| Change in the provision for unearned premiums, reinsurers' share | (794,667) | 171,978 |
| Reinsurers' share of earned premiums | (11,275,828) | (11,341,374) |
| Net written premiums | - | - |
| Net earned premiums | - | - |

6 Commission income

| | 2014 | 2013 |
|---|-----------|-----------|
| | £ | £ |
| Reinsurance commissions and profit commission | 2,593,242 | 2,307,571 |
| Other commissions | 13,936 | 25,131 |
| | 2,607,178 | 2,332,702 |

7 Net investment return

| | 2014 | 2013 |
|--|----------|-----------|
| | £ | £ |
| <i>Investments at fair value through profit or loss:</i> | | |
| - dividend income | 418,477 | 383,264 |
| - interest income | 192,584 | 211,340 |
| <i>Other investments:</i> | | |
| - cash and cash equivalents income | (21,154) | 44,874 |
| - other income received | 41,902 | 42,793 |
| Investment income | 631,809 | 682,271 |
| Fair value gains on investments at fair value through profit or loss | 40,596 | 1,309,869 |
| Profit on disposal of available for sale investments | 78,250 | - |
| Investment expenses | (80,036) | (87,873) |
| Net investment return | 670,619 | 1,904,267 |

Included within cash and cash equivalents income are exchange losses of £29,152 (2013: £17,343 gains).

Included within profit on disposal of available for sale investments is £75,050 (2013: £nil) recycled through the statement of profit or loss from the statement of comprehensive income.

Methodist Insurance PLC

Notes to the Financial Statements

8 Claims and change in insurance liabilities and reinsurance recoveries

| | 2014 | 2013 |
|--|-------------|-------------|
| | £ | £ |
| Gross claims paid | 3,723,998 | 2,848,055 |
| Gross change in the provision for claims | 650,198 | 369,025 |
| Claims and change in insurance liabilities | 4,374,196 | 3,217,080 |
| Reinsurers' share of claims paid | (3,566,048) | (2,638,704) |
| Reinsurers' share of change in the provision for claims | 437,786 | (437,900) |
| Reinsurance recoveries | (3,128,262) | (3,076,604) |
| Claims and change in insurance liabilities, net of reinsurance | 1,245,934 | 140,476 |

9 Commissions and other acquisition costs

| | 2014 | 2013 |
|-----------------|---------|---------|
| | £ | £ |
| Commission paid | 108,723 | 121,869 |

10 Operating profit

| | 2014 | 2013 |
|---|--------|----------|
| | £ | £ |
| <i>Operating profit has been arrived at after charging/(crediting):</i> | | |
| - Net foreign exchange losses/(gains) | 29,152 | (17,343) |
| - Directors' emoluments | 56,759 | 59,281 |

11 Auditor's remuneration

| | 2014 | 2013 |
|---|--------|--------|
| | £ | £ |
| <i>Fees payable to the company's auditor for:</i> | | |
| - The audit of the company's annual accounts | 35,831 | 34,451 |
| - Audit related assurance services | 6,739 | 6,374 |
| - Non audit related services | 3,275 | 4,665 |

Audit related assurance services represents the audit of the PRA return.

The prior year comparatives have been re-presented to exclude the amounts recoverable from third parties which had previously been presented net. This was a presentational issue specific to this note and does not impact any other part of the financial statements.

12 Employee information

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

13 Charitable grants

| | 2014 | 2013 |
|--|-----------|-----------|
| | £ | £ |
| Charitable grants to Methodist funds and organisations | 1,000,000 | 1,000,000 |
| Charitable grants to other organisations | 605,000 | 3,005,000 |
| | 1,605,000 | 4,005,000 |

Methodist Insurance PLC

Notes to the Financial Statements

14 Income tax

| | 2014 | 2013 |
|---|----------|----------|
| | £ | £ |
| UK corporation tax for the current financial year | - | - |
| Adjustment in respect of prior periods | - | - |
| Total current tax charge | - | - |
| Deferred taxation relating to the pension scheme | 6,200 | 6,000 |
| Deferred taxation relating to available for sale financial assets | 16,136 | (16,136) |
| Other deferred taxation charges | (31,441) | (4,252) |
| Impact of change in tax rate on deferred tax provision | - | (35,990) |
| Income tax recoverable | (9,105) | (50,378) |

Tax on the company's profit before tax differs from the United Kingdom blended rate of corporation tax of 21.50% (2013: 23.25%) for the reasons set out in the following reconciliation:

| | 2014 | 2013 |
|--|-----------|-----------|
| | £ | £ |
| Profit/(loss) before tax | 144,975 | (142,779) |
| Tax calculated at the UK blended rate of 21.50% (2013: 23.25%). | 31,170 | (33,196) |
| <i>Factors affecting charge for the period:</i> | | |
| Non-taxable investment income and gains | (111,045) | (135,989) |
| Unrealised gains on investments crystallising | 1,148 | 5,645 |
| Excess charitable donations and expenses not deductible for tax purposes | 69,622 | 149,152 |
| Impact of change in deferred tax rate | - | (35,990) |
| Income tax recoverable | (9,105) | (50,378) |

A change in the UK standard rate of corporation tax from 23% to 21% became effective from 1 April 2014. Current tax has been provided at the blended rate of 21.5% (2013: 23.25%). A further reduction in the rate of corporation tax to 20% will become effective from April 2015. Deferred tax has been provided at the rate of 20% (2013: between 20% and 21.5%).

15 Appropriations

| | 2014 | 2013 |
|---|------|------|
| | £ | £ |
| <i>Amounts recognised as distributions to equity holders in the period:</i> | | |
| Dividends | 187 | 187 |

This equates to a dividend of 1p per share (2013: 1p).

16 Pension asset

The company contributes to a defined benefit pension scheme providing benefits based on final pensionable salary. The assets of the scheme are held separately from those of the company, being invested with an insurance company under a Group Funding policy. The contributions are determined, on the basis of triennial valuations, by an independent qualified actuary. The scheme has been closed to new entrants since 1 July 1998. As the scheme is closed, the current service cost will increase as the members of the scheme approach retirement. The most recent triennial valuation was carried out as at 1 January 2011 using the Projected Unit Method. The triennial valuation is reviewed annually. The triennial valuation as at 1 January 2014 is due to be completed during 2015.

The assumptions which have the greatest effect on the valuation results are those related to the rate of return on investments and the rates of increase in salaries and pensions. The valuation is further impacted as liabilities are discharged by the purchase of annuities on the commencement of members' pensions. The most recently reviewed actuarial valuation showed that the notional value of the scheme's assets was £2,918,000, representing 124% of the benefits accrued to members.

Methodist Insurance PLC

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The full actuarial valuation for the defined benefit pension scheme has been reviewed and updated by a qualified independent actuary at 31 December 2014. The financial assumptions used were as follows:

| | 2014 | 2013 |
|---|------|------|
| Inflation | 2.5% | 2.8% |
| Future increase in salary | n/a | n/a |
| Future increase in pensions - in payment | 4.0% | 4.0% |
| Future increase in pensions - deferred pensions | 2.5% | 2.8% |
| Discount rate | 3.4% | 4.4% |

Mortality rate

The average life expectancy in years of a pensioner retiring at age 65, at the year end date, is as follows:

| | | |
|--------|------|------|
| Male | 22.2 | 22.2 |
| Female | 24.5 | 24.4 |

The average life expectancy in years of a pensioner retiring at age 65, 20 years after the year end date, is as follows:

| | | |
|--------|------|------|
| Male | 24.0 | 23.9 |
| Female | 26.4 | 26.3 |

The scheme typically exposes the company to actuarial risks such as investment risk, interest rate risk, mortality risk and longevity risk. A decrease in corporate bond yields, a rise in inflation or an increase in life expectancy would result in an increase in scheme liabilities. This may give rise to increased charges in future profit or loss statements. This effect would be partially offset by an increase in the value of the scheme's bond holdings. Additionally, caps on inflationary increases are in place to protect the scheme against extreme inflation.

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, inflation and mortality. The sensitivity analysis below has been determined on reasonably possible changes of the assumptions occurring at the end of the reporting period assuming that all other assumptions are held constant.

| Assumption | Change in assumption | Increase in scheme liabilities | |
|-------------------|-----------------------------|--------------------------------|------|
| | | 2014 | 2013 |
| Discount rate | Decrease of 0.25% per annum | 3.1% | 3.0% |
| Rate of inflation | Increase of 0.25% per annum | 0.3% | 0.4% |
| Life expectancy | Increase of 1 year | 4.8% | 4.3% |

As the recoverability of the pension asset remains uncertain, the pension asset and associated deferred taxation continue to be derecognised, and all gains and losses relating to the scheme are eliminated in the year that they arise.

The amounts recognised in the scheme are as follows:

| | 2014 | 2013 |
|--|-------------|-------------|
| | £ | £ |
| Present value of funded obligations | (2,355,000) | (2,259,000) |
| Fair value of scheme assets | 2,918,000 | 2,947,000 |
| Surplus in the scheme | 563,000 | 688,000 |
| Restriction to net asset due to recoverability | (563,000) | (688,000) |
| Net asset in the statement of financial position | - | - |

The movement in the statement of financial position asset is as follows:

| | 2014 | 2013 |
|--|----------|----------|
| | £ | £ |
| As at 1 January | - | - |
| Amounts charged to profit or loss | 31,000 | 30,000 |
| Amounts recognised in other comprehensive income | (31,000) | (30,000) |
| As at 31 December | - | - |

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Notes to the Financial Statements

The amounts recognised in the statement of profit or loss and the statement of comprehensive income in respect of the company's pension scheme are as follows:

| | 2014 £ | 2013 £ |
|--|-----------|-----------|
| <i>Analysis of amounts charged to statement of profit or loss</i> | | |
| Current service cost | (6,000) | (6,000) |
| Interest income on scheme assets | 124,000 | 126,000 |
| Interest expense on scheme liabilities | (93,000) | (96,000) |
| Contributions paid by Ecclesiastical | 6,000 | 6,000 |
| Total included in other operating and administrative expenses | 31,000 | 30,000 |
| <i>Analysis of amounts included in the statement of comprehensive income</i> | | |
| Return on scheme assets, excluding interest income | 129,000 | (180,000) |
| Experience losses on scheme liabilities | (39,000) | (1,000) |
| (Losses)/gains from changes in financial assumptions | (246,000) | 110,000 |
| Actuarial losses relating to pension asset | (156,000) | (71,000) |
| Elimination of pension movement | 125,000 | 41,000 |
| Total included in other comprehensive income | (31,000) | (30,000) |

The movements in the fair value of scheme assets and the defined benefit obligation over the year are as follows:

| | 2014 £ | 2013 £ |
|--|-----------|-----------|
| <i>Scheme assets</i> | | |
| As at 1 January | 2,947,000 | 3,139,000 |
| Interest income | 124,000 | 126,000 |
| Return on scheme assets, excluding interest income | 129,000 | (180,000) |
| Pension benefits paid and payable | (288,000) | (144,000) |
| Contributions paid | 6,000 | 6,000 |
| As at 31 December | 2,918,000 | 2,947,000 |
| <i>Defined benefit obligation</i> | | |
| As at 1 January | 2,259,000 | 2,410,000 |
| Current service cost | 6,000 | 6,000 |
| Interest cost | 93,000 | 96,000 |
| Pension benefits paid and payable | (288,000) | (144,000) |
| Experience losses on scheme liabilities | 39,000 | 1,000 |
| Losses/(gains) from changes in financial assumptions | 246,000 | (110,000) |
| As at 31 December | 2,355,000 | 2,259,000 |

History of scheme assets and liabilities:

| | 2014 £ | 2013 £ | 2012 £ | 2011 £ | 2010 £ |
|--|-------------|-------------|-------------|-------------|-------------|
| Fair value of scheme assets | 2,918,000 | 2,947,000 | 3,139,000 | 3,112,000 | 2,963,000 |
| Present value of defined benefit obligations | (2,355,000) | (2,259,000) | (2,410,000) | (2,215,000) | (2,089,000) |
| Surplus | 563,000 | 688,000 | 729,000 | 897,000 | 874,000 |

The average duration of the defined benefit obligation at the period ending 31 December 2014 is 12 years (2013: 12 years).

The contribution expected to be paid during the year ended 31 December 2015 is £nil.

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The scheme assets are invested in insurance policies, the underlying investments of which are shown below:

| | 2014 | 2013 |
|---------------------|-----------|-----------|
| | £ | £ |
| Bonds | 1,102,000 | 1,205,000 |
| Insured pensioners | 1,816,000 | 1,742,000 |
| Total scheme assets | 2,918,000 | 2,947,000 |

The actual return on scheme assets was a £253,000 (2013: £54,000 loss).

17 Financial investments

| | 2014 | 2013 |
|---|------------|------------|
| | £ | £ |
| <i>Financial investments at fair value through profit or loss</i> | | |
| Equity securities: | | |
| - listed | 12,932,169 | 12,619,098 |
| Debt securities: | | |
| - government bonds | 7,239,676 | 7,440,152 |
| - listed | 707,147 | 830,513 |
| <i>Financial investments available for sale</i> | | |
| Equity securities: | | |
| - unlisted | - | 81,300 |
| Debt securities: | | |
| - unlisted | - | 18,750 |
| <i>Investments in group undertakings</i> | | |
| Shares in subsidiary undertakings | 998 | 998 |
| Total financial investments | 20,879,990 | 20,990,811 |

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

18 Other assets

| | 2014 | 2013 |
|--|-----------|-----------|
| | £ | £ |
| <i>Receivables arising from insurance and reinsurance contracts:</i> | | |
| - due from contract holders | 822,458 | 1,388,001 |
| - due from agents, brokers and intermediaries | 69,399 | 53,320 |
| <i>Other receivables:</i> | | |
| - accrued interest | 66,507 | 86,626 |
| - other prepayments and accrued income | 65,009 | 70,347 |
| | 1,023,373 | 1,598,294 |

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

At 31 December 2014, £26,133 (2013: £33,377) of receivables were past due and not impaired. No impairment charges have been recognised in the current or prior year.

19 Cash and cash equivalents

| | 2014 | 2013 |
|--------------------------|-----------|-----------|
| | £ | £ |
| Cash at bank and in hand | 375,924 | 418,617 |
| Short term bank deposits | 3,467,243 | 2,152,428 |
| | 3,843,167 | 2,571,045 |

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

Methodist Insurance PLC

Notes to the Financial Statements

20 Called up share capital

| | 2014 | 2013 |
|---|---------|---------|
| | £ | £ |
| <i>Issued, allotted and fully paid:</i> | | |
| 18,750 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

| | 2014 | 2013 |
|-----------------------------------|------------|------------|
| | £ | £ |
| <i>Gross</i> | | |
| Claims outstanding | 16,667,786 | 16,064,570 |
| Unearned premiums | 6,025,024 | 6,833,123 |
| Total gross insurance liabilities | 22,692,810 | 22,897,693 |

Recoverable from reinsurers

| | | |
|--|------------|------------|
| Claims outstanding | 8,758,013 | 9,242,781 |
| Unearned premiums | 6,025,024 | 6,833,123 |
| Total reinsurers' share of insurance liabilities | 14,783,037 | 16,075,904 |

Net

| | | |
|---------------------------------|-----------|-----------|
| Claims outstanding | 7,909,773 | 6,821,789 |
| Unearned premiums | - | - |
| Total net insurance liabilities | 7,909,773 | 6,821,789 |

Gross insurance liabilities

| | | |
|-------------|------------|------------|
| Current | 9,759,202 | 10,271,499 |
| Non-current | 12,933,608 | 12,626,194 |
| | 22,692,810 | 22,897,693 |

Reinsurance assets

| | | |
|-------------|------------|------------|
| Current | 9,759,202 | 10,271,499 |
| Non-current | 5,023,835 | 5,804,405 |
| | 14,783,037 | 16,075,904 |

Methodist Insurance PLC

Notes to the Financial Statements

General business insurance contracts

(i) *Reserving methodology*

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

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

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

(ii) *Calculation of uncertainty margins*

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

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

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

(iv) *Assumptions*

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

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

Methodist Insurance PLC

Notes to the Financial Statements

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

Of the total claims provision £4,148,981 (2013: £4,330,637) gross and £4,148,981 (2013: £4,330,637) net after assumed reinsurance recoveries relate to this matter.

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

(v) Change in assumptions

There are no significant changes in assumptions.

(vi) Sensitivity of results

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

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

| | 2014 | | 2013 | |
|-----------|---------------|-------------|---------------|-------------|
| | Gross £000 | Net £000 | Gross £000 | Net £000 |
| Liability | 1,388 | 750 | 1,284 | 647 |
| Property | 238 | - | 287 | - |

(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.

| | 2005 £000 | 2006 £000 | 2007 £000 | 2008 £000 | 2009 £000 | 2010 £000 | 2011 £000 | 2012 £000 | 2013 £000 | 2014 £000 | Total £000 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Estimate of ultimate claims: | | | | | | | | | | | |
| At end of year | 3,980 | 4,548 | 7,439 | 7,441 | 4,756 | 6,271 | 6,148 | 6,205 | 4,289 | 5,158 | |
| One year later | 3,304 | 4,225 | 6,734 | 6,327 | 3,905 | 5,526 | 4,653 | 4,914 | 3,208 | | |
| Two years later | 3,010 | 4,307 | 6,461 | 6,100 | 3,708 | 4,811 | 4,604 | 4,518 | | | |
| Three years later | 3,075 | 4,277 | 6,051 | 5,896 | 3,692 | 4,832 | 3,764 | | | | |
| Four years later | 3,173 | 3,946 | 5,922 | 5,779 | 3,578 | 4,687 | | | | | |
| Five years later | 3,238 | 3,909 | 5,833 | 5,830 | 3,615 | | | | | | |
| Six years later | 3,142 | 3,883 | 5,870 | 5,878 | | | | | | | |
| Seven years later | 3,093 | 3,909 | 5,868 | | | | | | | | |
| Eight years later | 3,134 | 3,902 | | | | | | | | | |
| Nine years later | 3,152 | | | | | | | | | | |
| Current estimate of ultimate claims | 3,152 | 3,902 | 5,868 | 5,878 | 3,615 | 4,687 | 3,764 | 4,518 | 3,208 | 5,158 | 43,750 |
| Cumulative payments to date | (3,071) | (3,807) | (5,792) | (5,641) | (3,360) | (4,357) | (3,341) | (2,931) | (1,778) | (1,424) | (35,502) |
| Outstanding liability | 81 | 95 | 76 | 237 | 255 | 330 | 423 | 1,587 | 1,430 | 3,734 | 8,248 |
| Liability in respect of earlier years | | | | | | | | | | | 8,008 |
| Internal claims handling reserve | | | | | | | | | | | 412 |
| Total gross liability included in insurance liabilities in the statement of financial position | | | | | | | | | | | 16,668 |
| Reinsurers' share of contract provisions | | | | | | | | | | | (8,758) |
| Total net liability | | | | | | | | | | | 7,910 |

Methodist Insurance PLC

Notes to the Financial Statements

(viii) Movements in insurance liabilities and reinsurance assets

| | Gross £ | Reinsurance £ | Net £ |
|---|-------------|------------------|-----------|
| <i>Claims outstanding</i> | | | |
| At 1 January 2014 | 16,064,570 | (9,242,781) | 6,821,789 |
| Exchange differences | (46,982) | 46,982 | - |
| Cash (paid)/received for prior year claims settled in the year | (2,300,306) | 2,142,356 | (157,950) |
| Change in prior year liabilities/reinsurance assets | (783,674) | 2,029,608 | 1,245,934 |
| Prior year liabilities/(reinsurance assets) at 31 December 2014 | 12,933,608 | (5,023,835) | 7,909,773 |
| Current year claims/(recoveries) | 5,157,870 | (5,157,870) | - |
| Cash (paid)/received for current year claims settled in the year | (1,423,692) | 1,423,692 | - |
| Current year liabilities/(reinsurance assets) at 31 December 2014 | 3,734,178 | (3,734,178) | - |
| At 31 December 2014 | 16,667,786 | (8,758,013) | 7,909,773 |
| <i>Provision for unearned premiums</i> | | | |
| At 1 January 2014 | 6,833,123 | (6,833,123) | - |
| Exchange differences | (13,432) | 13,432 | - |
| Movement in the year | (794,667) | 794,667 | - |
| At 31 December 2014 | 6,025,024 | (6,025,024) | - |
| <i>Claims outstanding</i> | | | |
| At 1 January 2013 | 15,677,973 | (8,787,308) | 6,890,665 |
| Exchange differences | 17,572 | (17,572) | - |
| Cash (paid)/received for prior year claims settled in the year | (1,997,220) | 1,787,869 | (209,351) |
| Change in prior year liabilities/reinsurance assets | (1,072,131) | 1,212,606 | 140,475 |
| Prior year liabilities/(reinsurance assets) at 31 December 2013 | 12,626,194 | (5,804,405) | 6,821,789 |
| Current year claims/(recoveries) | 4,289,211 | (4,289,211) | - |
| Cash (paid)/received for current year claims settled in the year | (850,835) | 850,835 | - |
| Current year liabilities/(reinsurance assets) at 31 December 2013 | 3,438,376 | (3,438,376) | - |
| At 31 December 2013 | 16,064,570 | (9,242,781) | 6,821,789 |
| <i>Provision for unearned premiums</i> | | | |
| At 1 January 2013 | 6,655,698 | (6,655,698) | - |
| Exchange differences | 5,447 | (5,447) | - |
| Movement in the year | 171,978 | (171,978) | - |
| At 31 December 2013 | 6,833,123 | (6,833,123) | - |

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

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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:

| | Net retirement benefit assets | Financial assets Fair value through profit or loss | Available for sale | Capital allowances in excess of depreciation | Total |
|--|-------------------------------|---|--------------------|--|----------|
| | £ | £ | £ | £ | £ |
| At 1 January 2013 | - | 284,991 | - | (9,065) | 275,926 |
| Charge/(credit) to income | 6,000 | (34,736) | - | 14,350 | (14,386) |
| (Credit)/charge to income resulting from reduction in tax rate | - | (37,173) | - | 1,181 | (35,992) |
| (Credit)/charge to comprehensive | (6,000) | - | 16,136 | - | 10,136 |
| At 31 December 2013 | - | 213,082 | 16,136 | 6,466 | 235,684 |
| Charge/(credit) to income | 6,200 | (15,305) | - | - | (9,105) |
| Credit to comprehensive income | (6,200) | - | (16,136) | - | (22,336) |
| At 31 December 2014 | - | 197,777 | - | 6,466 | 204,243 |

23 Other liabilities

| | 2014 £ | 2013 £ |
|---|----------------|----------------|
| Creditors arising out of reinsurance operations | 152,908 | 659,470 |
| Other creditors | 207,761 | 227,323 |
| Amounts owed to related parties | 998 | 998 |
| Accruals | 71,848 | 82,615 |
| | 433,515 | 970,406 |
| Current | 432,517 | 969,408 |
| Non-current | 998 | 998 |

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

The creditors arising out of reinsurance operations comprises £2,845,038 (2013: £3,041,221) payables net of £2,692,129 (2013: £2,381,751) receivables.

24 Capital commitments

At 31 December 2014 there were £nil (2013: £nil) outstanding contracts for capital expenditure.

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Notes to the Financial Statements

25 Related party transactions

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

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

The company ceded premiums net of claims paid and commissions to the value of £6,741,724 (2013: £8,652,681) during the year to Ecclesiastical Insurance Office plc, which also bore expenses of the company's business of £1,599,275 (2013: £2,058,684). The reinsurers' share of technical provisions due from Ecclesiastical Insurance Office plc as at 31 December 2014 is £14,743,928 (2013: £16,007,686) which consists of £5,985,915 (2013: £6,764,905) of unearned premium and £8,758,013 (2013: £9,242,781) of outstanding claims. At 31 December 2014 £141,787 (2013: £652,889) was due to Ecclesiastical Insurance Office plc. Information about key management personnel compensation is provided in note 10 to the financial statements.

Transactions and services with related parties are made on commercial terms. The company has a letter of credit with Ecclesiastical Insurance Office plc for £2,000,000 (2013: £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.

Included within financial investments is a holding of 140,000 (2013: 140,000) Ecclesiastical 8.625% Non-Cumulative Irredeemable Preference shares with a fair value of £182,700 (2013: £163,100).

26 Subsidiary undertakings

The company's interest in subsidiary undertakings at 31 December 2014 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.