

Registered Number 6369

METHODIST INSURANCE PUBLIC LIMITED COMPANY

REPORT & ACCOUNTS

FOR THE SIX MONTHS ENDED 31ST DECEMBER 2001



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Methodist Insurance 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 its 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.

Notice of Meeting

NOTICE IS HEREBY GIVEN that the one hundred and thirtieth Annual General Meeting of the Company will be held at the Company's offices, Brazennose House, Brazennose Street, Manchester, on Monday 22 April 2002 at 12.00 noon to transact the following:

Ordinary business

To receive and consider the Report of the Directors and the Accounts for the six months ended 31 December 2001.

To declare a dividend.

To approve the directors' recommended distribution of charitable grants amounting to £300,000 to Methodist funds and organisations.

To re-elect the following directors who retire by rotation in accordance with Article 93 of the Company's Articles of Association and who, being eligible, offer themselves for re-election:

Herbert W. Tuckey, notwithstanding that he is age 70, special notice pursuant to Sections 379 and 293(5) of the Companies Act 1985 having been received from a shareholder of the intention to propose this resolution.

Susan R. Howdle

G. Michael Wearing

To re-appoint KPMG Audit Plc as auditors and to authorise the directors to fix their remuneration.

Special business

To amend the Company's Articles of Association by deleting from Article 86(A) the figure £30,000 and substituting therefor the figure £60,000.

To transact any other ordinary business.

By Order of the Board,
G. SIMPSON, Secretary.
28 March 2002.

A member entitled to attend and vote at this meeting may appoint another person, whether a member or not, as his proxy to attend and, on a poll, to vote instead of him.

Directors and Officers

Directors

Herbert W. Tuckey, F.C.A.
Michael A. H. Willett, F.I.A.
Susan R. Howdle, B.C.L., M.A.
Andrew G. Gibbs, M.A., F.C.A.
Colin H. Boothman, F.R.I.C.S., M.A. Cost E.
Rev. G. Michael Wearing, M.A., B.D.
Rev. Martin V. Caldwell.
Christopher F. Nock, A.C.I.I.
Graham V. Doswell, F.C.I.I.

Chairman
Deputy Chairman

Officers

Peter A. Lowe, F.C.I.I.
Grayham Simpson, F.C.I.S.
Ronald W. Barnet, F.C.I.I.

General Manager
Financial Controller and Secretary
Underwriting Manager

Head Office and Registered Address

Brazennose House, Brazennose Street, Manchester M2 5AS.
Telephone 0161 833 9696
Fax 0161 833 1287

Auditors

KPMG Audit Plc, Chartered Accountants,
St. James' Square, Manchester M2 6DS.

Bankers

HSBC Bank plc.
100 King Street, Manchester M60 2HD.

Statement by the Chairman

As referred to in my last Chairman's Statement, the Company has changed its accounting date to 31 December, so this Report and Accounts covers the six months to 31 December 2001.

Much has been achieved in this period, which has seen the final preparations for the launch of our new Church Shield policy in January 2002. *Written with our experience of insuring Methodist churches we feel it represents the best cover available and is presented in such a way as to earn the "Crystal Mark" for plain English.* The launch of this policy following on from our home Excel policy marks another milestone in updating the cover we offer our policyholders.

Having decided to convert to Ecclesiastical Office's mainframe computer system, the preparatory work has gathered pace. It is planned that renewal documentation will be processed on this system by May 2002. Our small Republic of Ireland account has been successfully transferred and is now Euro compliant.

It is pleasing to note that despite intense market competition, very little business was lost to competitors; indeed our Gross Premium income in the six months grew by 8.6% from £4,311,000 to £4,682,000. Much of this growth has been achieved through the sale of the household "Excel" policy to the general public via a selected panel of brokers. To protect the Company from growth at any price, we are introducing a new price rating structure. The work of our Development Underwriters and Surveyors continues to be the active link with our policyholders. This is well received and we are planning its expansion.

We are here to support our policyholders when they incur an insured loss, but it is important to remember that policyholders have obligations too. Because of this, both in our Church Shield and Excel policies we set out not only what is insured but also what is not insured. A series of guidance note booklets issued with the new Church policy range from general to specific matters covering fire protection, health and safety and security. Since the year end, a serious fire at our Weymouth Church represents not only a tragedy for the local Church but our largest single claim. It is support from the Company at these times, which justifies the premium income we receive.

Despite the depressed Stock Market values and the continuing effect of Child Abuse claims, our solvency margin remains very strong. We are recommending grants of £300,000 for Methodist funds and organisations, which leaves a loss for the financial year of £98,236.

You will see that the Notice of Meeting includes a Resolution to amend Article 86(A) to increase the total of annual fees payable to Directors from £30,000 to £60,000. *Fixed ten years ago, the lower figure has yet to be breached, however it is thought right to increase this bearing in mind both the effect of inflation on monetary limits and the increased responsibility of Directors.*

This statement once again reflects the hard work and professionalism of the staff in Manchester and Gloucester, thank you. My sincere thanks also to my colleagues on the Board for their unstinting help and support.

Herbert W. Tuckey - Chairman.

Report of the Directors

The directors submit the Report and Accounts of the Company for the six months ended 31 December 2001.

Financial Results

The Profit and Loss Account on pages 8 and 9 shows the loss for the six months.

The directors recommend a dividend for the six months of 1p per share.

Activities

The principal activity of the Company is the transaction of general insurance business.

Review of Activities

The Chairman's review of the affairs of the Company is set out on page 4.

Directors

The names of the present directors are shown on page 3.

Mr. H. W. Tuckey, Mrs. S. R. Howdle and Rev. G. M. Wearing retire from the board by rotation and, being eligible, offer themselves for re-election.

Directors' Shareholdings

The directors were interested in the shares of the Company as follows:

31 December 2001			30 June 2001		
H. W. Tuckey	1,275	1,275	Rev. G. M. Wearing	202	202
M. A. H. Willett	1,300	1,300	Rev. M. V. Caldwell	241	241
S. R. Howdle	250	250	C. F. Nock	250	250
A. G. Gibbs	300	300	G. V. Doswell	250	250
C. H. Boothman	500	500			

Directors' Responsibilities for the Preparation of Financial Statements

Company law requires the directors to prepare financial statements for each financial year which comply with the provisions of the Companies Act 1985 applicable to insurance companies. In preparing those 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 applicable accounting standards have been followed;
- 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the provisions of the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Charitable and Political Contributions

Charitable contributions donated during the six months amounted to £300,055 (Year to 30 June 2001 £400,000). There were no contributions for political purposes.

Report of the Directors (continued)

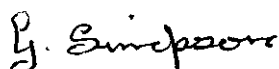
Payment of Creditors

It is Company policy to settle all debts with its creditors on a timely basis, taking account of the credit period given by each supplier. Under the terms of a Joint Administration Agreement, referred to in note B on page 13, most of the Company's creditors are payable by the Ecclesiastical Insurance Office plc. At the end of the financial period the Company had no trade creditors.

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

By Order of the Board,
G. SIMPSON, Secretary.
15 March 2002.



Independent Auditor's Report

To the members of the Methodist Insurance Plc.

We have audited the financial statements on pages 8 to 20.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 5, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Equalisation reserves

Our evaluation of the presentation of information in the financial statements has regard to the statutory requirement for insurance companies to maintain equalisation reserves. The nature of equalisation reserves, the amounts set aside at 31 December 2001, and the effect of the movement in those reserves during the year on the general business technical result and profit before tax, are disclosed in note 4.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2001 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Manchester
18 March 2002

Profit and Loss Account : Technical Account - General Business (continuing operations)

For the period ended 31 December 2001

		6 months to 31 December 2001		Year to 30 June 2001
	Note	£	£	£
Earned premiums, net of reinsurance				
Gross premiums written	1	4,682,372	8,204,588	
Outward reinsurance premiums		<u>(4,682,372)</u>	<u>(8,204,588)</u>	
		-	-	
Change in the gross provision for unearned premiums		440,827	(321,671)	
Change in the gross provision for unearned premiums, reinsurers' share		<u>(440,827)</u>	<u>321,671</u>	
		-	-	
Claims incurred, net of reinsurance				
Claims paid				
Gross amount		(2,773,428)	(3,481,161)	
Reinsurers' share		<u>1,948,278</u>	<u>2,962,859</u>	
		<u>(825,150)</u>	<u>(518,302)</u>	
Change in the provision for claims				
Gross amount		229,231	(2,893,456)	
Reinsurers' share		<u>100,765</u>	<u>1,990,648</u>	
		<u>329,996</u>	<u>(902,808)</u>	
		(495,154)		(1,421,110)
Net operating income	3	<u>643,813</u>		<u>449,132</u>
General business operating result		<u>148,659</u>		<u>(971,978)</u>
Change in the equalisation provision	4	-		205,137
Balance on the technical account for general business	1	<u>148,659</u>		<u>(766,841)</u>

The accounting policies and notes on pages 13 to 20 form an integral part of these accounts.

Profit and Loss Account : Non-technical Account (continuing operations)

For the period ended 31 December 2001

			6 months to 31 December 2001	Year to 30 June 2001
	Note	£	£	£
Balance on the general business technical account			148,659	(766,841)
Investment income	5	337,149		675,633
Unrealised losses on investments		(328,600)		(451,858)
Investment expenses and charges	6	-		(44,021)
			8,549	179,754
Operating profit/(loss) on ordinary activities before other charges			157,208	(587,087)
Charitable grant to Methodist funds and organisations			(300,000)	(400,000)
Loss on ordinary activities before tax			(142,792)	(987,087)
Tax on loss on ordinary activities	7		44,743	264,587
Loss on ordinary activities after tax			(98,049)	(722,500)
Dividend proposed			(187)	(187)
Loss for the period	8		(98,236)	(722,687)

There are no recognised gains or losses other than the loss on ordinary activities after tax stated above.

Reconciliation of Movements in Shareholders' Funds

The Company's articles do not provide for participation of shareholders in any surplus generated by the Company's trading. Shareholders' funds are restricted to the amount of share capital paid up in cash of £1,875 (note 12).

Statement of Historical Cost Profits and Losses

For the period ended 31 December 2001

	6 months to 31 December 2001	Year to 30 June 2001
	£	£
Loss on ordinary activities before tax	(142,792)	(987,087)
Realisation of investment revaluation gains on previous years	47,047	1,002,105
Net unrealised losses	328,600	451,858
Historical cost profit on ordinary activities before tax	232,855	466,876
Tax on loss on ordinary activities	44,743	264,587
Dividend proposed	(187)	(187)
Historical cost profit for the period	277,411	731,276

The accounting policies and notes on pages 13 to 20 form an integral part of these accounts.

Balance Sheet

As at 31 December 2001

		31 December 2001		30 June 2001
	Note	£	£	£
Assets				
Investments				
Other financial investments	9	14,785,062		15,337,814
<i>Reinsurers' share of technical provisions</i>				
Provision for unearned premiums		4,948,811	4,507,984	
Claims outstanding		<u>10,021,539</u>	<u>9,920,773</u>	
		14,970,350		14,428,757
<i>Debtors</i>				
Debtors arising out of direct insurance operations				
Policyholders		87,997	100,842	
Intermediaries		<u>1,532,235</u>	<u>787,663</u>	
		1,620,232	888,505	
Debtors arising out of reinsurance operations		881,301	459,242	
Other debtors		<u>781</u>	<u>53,016</u>	
		2,502,314		1,400,763
<i>Other assets</i>				
Tangible assets	10	70,544	121,462	
Cash at bank and in hand	11c	<u>695,632</u>	<u>336,884</u>	
		766,176		458,346
<i>Prepayments and accrued income</i>				
Accrued interest and rent		99,242	103,929	
Other prepayments and accrued income		<u>58,573</u>	<u>28,371</u>	
		157,815		132,300
		<u>33,181,717</u>		<u>31,757,980</u>

The accounting policies and notes on pages 13 to 20 form an integral part of these accounts.

Balance Sheet

As at 31 December 2001

	Note	£	31 December 2001 £	£	30 June 2001 £
Liabilities					
Capital and reserves					
Called up share capital	12	112,500		112,500	
Profit and loss account	8	<u>8,654,611</u>		<u>8,752,847</u>	
			8,767,111		8,865,347
Technical provisions					
Provision for unearned premiums		4,948,811		4,507,984	
Claims outstanding	13	<u>17,030,708</u>		<u>17,259,939</u>	
			21,979,519		21,767,923
Provisions for other risks and charges	14		843,202		971,112
Creditors					
Creditors arising out of direct insurance operations					
Policyholders		7,466		10,383	
Intermediaries		<u>61,290</u>		<u>21,279</u>	
		68,756		31,662	
Creditors arising out of reinsurance operations		1,304,903		580	
Other creditors including taxation & social security	15	186,618		97,704	
Proposed dividend		<u>187</u>		<u>187</u>	
			1,560,464		130,133
Accruals and deferred income			31,421		23,465
			<u>33,181,717</u>		<u>31,757,980</u>

The financial statements were approved by the board of directors on 15 March 2002 and were signed on its behalf by:


Herbert W. Tuckey, Chairman.

The accounting policies and notes on pages 13 to 20 form an integral part of these accounts.

Cash Flow Statement

For the period ended 31 December 2001

	Note	£	6 months to 31 December 2001 £	£	Year to 30 June 2001 £
Net cash flows from operating activities	11a		392,056		1,000,447
Taxation					
UK corporation tax (paid)/recovered			(413)		123,619
Capital expenditure					
Sale of tangible fixed assets			1,450		3,198
Equity dividends paid			(187)		(187)
Charitable grants paid			(300,000)		(400,000)
Increase in cash			<u>92,906</u>		<u>727,077</u>
Cash flows were applied as follows:					
Increase/(Decrease) in cash holdings			358,748		(525,179)
Net portfolio (divestment)/investment					
Shares and other variable yield securities		81,659		(105,736)	
Debt securities and other fixed income securities		-		(621,467)	
Loans secured by mortgages		(55,000)		(35,000)	
Deposits with credit institutions		(292,501)		2,014,459	
	11b		<u>(265,842)</u>		<u>1,252,256</u>
Net application of cash flows			<u>92,906</u>		<u>727,077</u>
Movement in opening and closing cash and portfolio investments					
				£	
Net cash inflow for the period				358,748	
Cash flow from portfolio investments				(265,842)	
Movements arising from cash flows				92,906	
Changes in market values				(286,910)	
Total movement in cash and portfolio investments				(194,004)	
Cash and portfolio investments at 1 July 2001				15,674,698	
Cash and portfolio investments at 31 December 2001	11c			<u>15,480,694</u>	

The accounting policies and notes on pages 13 to 20 form an integral part of these accounts.

Accounting Policies

A. Disclosure requirements

The accounts have been prepared in accordance with the provisions of section 255 of, and Schedule 9A to, the Companies Act 1985, as amended by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993. The financial statements have also been prepared in accordance with applicable accounting and reporting standards and the statement of recommended practice on accounting for insurance business issued by the Association of British Insurers and under the historical cost convention with investments being included at market value as permitted by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993.

B. Basis of preparation

The Company operates a Joint Administration Agreement and a Reinsurance Treaty Agreement with Ecclesiastical Insurance Office plc, under which Ecclesiastical Insurance Office plc manages and administers the Company's insurance business and accepts all insurances written by the Company and is responsible for all disbursements relating to the business except certain expenses designated as the sole responsibility of the Company.

The Company has adopted FRS 18 Accounting Policies, which did not have a material effect on the results or financial position of the Company in the current period or prior year.

C. Premium income

Premiums are accounted for in the period in which the risks are assumed. Provision is made for unearned premiums on a daily pro-rata basis for those periods of risk extending beyond the end of the accounting period.

D. Claims

1. Outstanding

Provisions for notified claims as at 31 December are determined on an individual case basis after taking into account related handling expenses, expected recoveries, anticipated inflation and trends in settlements.

Estimates made are based on the information available at the time.

Provision is also made in respect of claims incurred but not reported at 31 December.

Any differences between original claims provisions and subsequent re-estimates or settlements are reflected in the underwriting results of the period in which claims are re-estimated or settled.

2. Incurred

Claims incurred includes all claims and claims settlement expense payments made in respect of the financial period, and the movement in provision for outstanding claims and settlement expenses and includes claims incurred but not reported, net of salvage and subrogation recoveries.

3. Equalisation provision

An equalisation provision is calculated in accordance with the Insurance Companies (Reserves) Act 1995 to mitigate exceptional high loss ratios in future years for classes of business displaying a high degree of claims volatility.

E. Reinsurance

The Company has a reinsurance treaty with Ecclesiastical Insurance Office plc whereby all business accepted by the Company is fully reinsured with the Ecclesiastical. Reinsurance premiums are accounted for at the time the business is written by the Company. The Company's and the reinsurer's 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.

F. Investments

1. Investment income

Investment income is accounted for on an accruals basis. Dividends are recognised on the date on which the related investment goes 'ex-dividend'. Interest is accrued up to the balance sheet date. Realised gains or losses represent the difference between net sales proceeds and purchase price or, if previously valued, the valuation at the last balance sheet date.

2. Unrealised gains and losses

Unrealised gains and losses represent the difference between the valuation of investments at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date. All unrealised gains and losses are taken to the Non-technical Account.

3. Valuation

All investments are stated at their current value. Listed investments are stated at mid-market value. Unlisted investments are valued by the directors on a prudent basis with regard to their likely realisable values.

Accounting Policies (continued)

G. Capital expenditure

Expenditure on computer equipment and software, office equipment, furniture, fixtures and fittings, and motor vehicles is capitalised and depreciated on a straight line basis over the estimated useful lives of the assets, which are as follows:

Computer equipment and software	4 years	Furniture, fixtures and fittings	8 years
Office equipment	5 years	Motor vehicles	5 years

H. Foreign currencies

Assets and liabilities in foreign currencies have been converted into sterling at the rates of exchange ruling at 31 December. Differences on exchange have been dealt with through the Profit and Loss Account.

I. Taxation

The charge for taxation is based on the loss for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that a liability will crystallise in the foreseeable future.

Notes on the Accounts

1 Segmental Information

a. Geographical analysis

	6 months to 31 December 2001			Year to 30 June 2001		
	Gross premiums written	Loss before tax	Net assets	Gross premiums written	Profit before tax	Net assets
	£	£	£	£	£	£
United Kingdom	4,485,693	(93,570)	8,751,348	7,885,076	(1,014,146)	8,849,102
Eire	196,679	(49,222)	15,763	319,512	27,059	16,245
Total	<u>4,682,372</u>	<u>(142,792)</u>	<u>8,767,111</u>	<u>8,204,588</u>	<u>(987,087)</u>	<u>8,865,347</u>

b. Technical account analysis

	Direct fire & damage to property	Direct liability	Direct accident & health	Direct miscellaneous financial loss	Grand total
	£	£	£	£	£
6 months to 31 December 2001					
Gross premiums written	4,039,650	490,997	99,334	52,391	4,682,372
Gross premiums earned	3,660,532	443,250	90,733	47,030	4,241,545
Gross claims incurred	1,630,375	874,619	(7,680)	46,883	2,544,197
Gross operating income	(160,504)	(18,066)	(3,651)	(1,929)	(184,150)
Gross technical result	2,190,661	(413,303)	102,064	2,076	1,881,498
Reinsurance balance	1,730,426	(79,900)	87,286	(4,973)	1,732,839
Net technical result	<u>460,235</u>	<u>(333,403)</u>	<u>14,778</u>	<u>7,049</u>	<u>148,659</u>
Year to 30 June 2001					
Gross premiums written	7,121,511	813,533	183,720	85,824	8,204,588
Gross premiums earned	6,846,226	775,304	181,084	80,303	7,882,917
Gross claims incurred	3,305,777	2,998,653	49,125	21,062	6,374,617
Gross operating expenses	489,153	58,371	13,181	6,120	566,825
Gross technical result	3,051,296	(2,281,720)	118,778	53,121	941,475
Reinsurance balance	2,478,208	(928,500)	110,519	48,089	1,708,316
Net technical result	<u>573,088</u>	<u>(1,353,220)</u>	<u>8,259</u>	<u>5,032</u>	<u>(766,841)</u>

Notes on the Accounts (continued)

2 Prior Years' Claims Provisions

The difference between the loss provision made at the beginning of the period for outstanding claims incurred in previous years, and the payments made during the period and the loss provision at the end of the period in respect of such outstanding claims, (under)/over, are as follows:

	6 months to 31 December 2001 £	Year to 30 June 2001 £
Fire and damage to property	(100,200)	(36,266)
Liability	(396,657)	(1,385,783)
Accident and health	1,780	185
Miscellaneous financial loss	(77)	754
	<u>(495,154)</u>	<u>(1,421,110)</u>

3 Net Operating Income

	6 months to 31 December 2001 £	Year to 30 June 2001 £
Administrative expenses	118,808	542,179
Bad debt provision movement	(240,110)	240,110
Other commissions	(62,848)	(215,464)
Gross operating (income)/expenses	(184,150)	566,825
Reinsurance commissions and profit participation	(459,663)	(1,015,957)
Net operating income	<u>(643,813)</u>	<u>(449,132)</u>

Net operating income includes:

Directors' emoluments

Fees and expenses	12,661	22,230
Pension to former director	8,165	14,409

Auditors' remuneration

Audit fees	15,862	14,700
Non-audit fees	12,125	2,844

Depreciation

50,918 193,873

Special contribution to the pension scheme

- 250,000

4 Equalisation Provision

This is required by law to be included within technical provisions in the balance sheet. However, there was no liability for such amounts at the balance sheet date (June 2001 £nil). The credit to the general business technical account of £nil (June 2001 £205,137), is calculated in accordance with the Insurance Companies (Reserves) Act 1995.

5 Investment Income

	6 months to 31 December 2001 £	Year to 30 June 2001 £
Income from investments	295,459	675,633
Gains on the realisation of investments	41,690	-
	<u>337,149</u>	<u>675,633</u>

Notes on the Accounts (continued)

6 Investment Expenses and Charges

	6 months to 31 December 2001 £	Year to 30 June 2001 £
Losses on the realisation of investments	-	(44,021)

7 Taxation

	6 months to 31 December 2001 £	Year to 30 June 2001 £
UK corporation tax at 20%	46,334	-
Under/(Over) provision in respect of prior years	36,833	(45,710)
	83,167	(45,710)
Deferred taxation	(127,910)	(218,877)
	(44,743)	(264,587)

8 Reserves

	Profit & loss account £
At beginning of the period	8,752,847
Loss for the 6 months	(98,236)
At end of the period	8,654,611

9 Investments

	Market value at 31 Dec 2001 £	Market value at 30 June 2001 £	Cost at 31 Dec 2001 £	Cost at 30 June 2001 £
Shares and other variable-yield securities	5,427,587	5,692,678	2,336,814	2,166,418
Debt securities and other fixed-income securities	7,529,358	7,469,518	5,666,308	5,666,308
Loans secured by mortgages	26,800	81,800	26,800	81,800
Deposits with credit institutions	1,801,317	2,093,818	1,801,317	2,093,818
	<u>14,785,062</u>	<u>15,337,814</u>	<u>9,831,239</u>	<u>10,008,344</u>
Investments listed on the UK Stock Exchange included above	<u>12,931,945</u>	<u>13,137,196</u>	<u>7,978,122</u>	<u>7,807,726</u>

Notes on the Accounts (continued)

10 Tangible Assets

	Computer equipment & software £	Office equipment fixtures & fittings £	Motor vehicles £	Total £
Cost				
At 1 July 2001	1,328,250	191,605	12,225	1,532,080
Disposals	-	-	(12,225)	(12,225)
At 31 December 2001	<u>1,328,250</u>	<u>191,605</u>	<u>-</u>	<u>1,519,855</u>
Accumulated depreciation				
At 1 July 2001	1,244,522	153,871	12,225	1,410,618
Depreciation for the year	41,794	9,124	-	50,918
Disposals	-	-	(12,225)	(12,225)
At 31 December 2001	<u>1,286,316</u>	<u>162,995</u>	<u>-</u>	<u>1,449,311</u>
Net book value				
At 31 December 2001	<u>41,934</u>	<u>28,610</u>	<u>-</u>	<u>70,544</u>
At 30 June 2001	<u>83,728</u>	<u>37,734</u>	<u>-</u>	<u>121,462</u>

11 Cash Flow Statement

a. Reconciliation of operating profit to net cash flows from operating activities

	6 months to 31 December 2001 £	Year to 30 June 2001 £
Profit/(Loss) on ordinary activities before other charges	157,208	(587,087)
Depreciation charges	50,918	193,873
Profit on sale of tangible fixed assets	(1,450)	(523)
Unrealised losses on investments	328,600	451,858
Realised (gains)/losses on investments	(41,690)	44,021
(Increase)/Decrease in debtors	(1,153,574)	170,858
(Increase)/Decrease in prepayments and accrued income	(25,515)	23,120
(Decrease)/Increase in technical provisions	(329,997)	697,671
Increase in creditors	1,399,600	10,841
Increase/(Decrease) in accruals and deferred income	7,956	(4,185)
Net cash inflow from operating activities	<u>392,056</u>	<u>1,000,447</u>

b. Net portfolio investments

The movement on net portfolio investments is made up as follows:

	6 months to 31 December 2001			Year to 30 June 2001		
	Purchases £	Sales £	Net £	Purchases £	Sales £	Net £
Shares and other variable yield securities	400,419	318,760	81,659	637,354	743,090	(105,736)
Debt securities and other fixed income securities	-	-	-	1,186,059	1,807,526	(621,467)
Loans secured by mortgage	-	55,000	(55,000)	-	35,000	(35,000)
	<u>400,419</u>	<u>373,760</u>	<u>26,659</u>	<u>1,823,413</u>	<u>2,585,616</u>	<u>(762,203)</u>
Deposits with credit institutions			(292,501)			2,014,459
			<u>(265,842)</u>			<u>1,252,256</u>

Notes on the Accounts (continued)

c. Movement in cash and portfolio investments

	At 1 July 2001	Cash flow	Changes to market value	At 31 Dec 2001
	£	£	£	£
Cash at bank and in hand	336,884	358,748	-	695,632
Shares and other variable yield securities	5,692,678	81,659	(346,750)	5,427,587
Debt securities and other fixed income securities	7,469,518	-	59,840	7,529,358
Loans secured by mortgages	81,800	(55,000)	-	26,800
Deposits with credit institutions	2,093,818	(292,501)	-	1,801,317
	<u>15,674,698</u>	<u>92,906</u>	<u>(286,910)</u>	<u>15,480,694</u>

12 Share Capital

	Authorised	Issued
	£	£
At 31 December 2001 and 30 June 2001		
18,750 shares of £6 each fully paid	<u>112,500</u>	<u>112,500</u>

On a 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.

13 Technical Provisions

The technical provisions for claims have been estimated in accordance with the methods set out in accounting policy D. Claims outstanding are affected by significant uncertainties in relation to the calculation of child abuse claims in childrens homes. Such claims, relating to incidents over the last forty years have emerged during the last five 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, considered on a home by home basis, for claims incurred but not reported. Reinsurers share of the provisions are based on the reinsurance treaties in force at the time.

Of the total claims provision £10,201,021 (£11,079,269 30 June 2001) gross and £5,295,495 (£5,645,775 30 June 2001) net after assumed reinsurance recoveries relate to this matter.

The claims provision is particularly sensitive to the number of assumed claims that are incurred but not reported.

Notes on the Accounts (continued)

14 Provisions for Other Risks and Charges

Deferred taxation	£
At beginning of the period	971,112
Charge for the period in the profit and loss account	(127,910)
At end of the period	<u>843,202</u>

Deferred taxation has been fully provided for as follows:

	At 31 December 2001 £	At 30 June 2001 £
Difference between accumulated depreciation and capital allowances	(74,495)	(73,762)
On revaluation of investments	927,232	1,057,878
Other timing differences	(9,535)	(13,004)
	<u>843,202</u>	<u>971,112</u>

15 Other Creditors including Taxation and Social Security

	At 31 December 2001 £	At 30 June 2001 £
Taxation payable	30,731	-
Social security	5,855	6,912
Other	<u>150,032</u>	<u>90,792</u>
	<u>186,618</u>	<u>97,704</u>

16 Staff Numbers and Costs

Under the terms of a Joint Administration Agreement the Company has no employees.

17 Pension Costs

The Company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company, being invested with an insurance company under a Grouped Funding policy. Ordinary contributions to the scheme are charged, under the terms of a Joint Administration Agreement, to the reinsurance account so as to spread the cost of pensions over employees' working lives with the Company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the Attained Age method. The scheme has been closed to new entrants from 1 July 1998 and the Attained Age method is particularly suitable for such schemes. The most recent valuation was as at 1 January 1999. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment returns would be 7.5% per annum, that salary increases would average 6% per annum and that present and future pensions would increase at the rate of 4% per annum. The most recent actuarial valuation showed that the notional value of the scheme's assets was £3,457,435 and that the actuarial value of those assets represented 106% of the benefits that had accrued to members, based on salaries projected to normal retirement date or the date of earlier withdrawal.

The pension contributions charged to the profit and loss account for the period were, in respect of a Company special contribution £nil (year to 30 June 2001 £250,000).

Notes on the Accounts (continued)

FRS 17 "Retirement Benefits"

Under the transitional rules of FRS 17 "Retirement Benefits" the Company is required to disclose the following information relating to the pension scheme as at 31 December 2001 (30 June 2001).

The full actuarial valuation carried out on 1 January 1999 was updated to 31 December 2001 (30 June 2001) by a qualified actuary.

The financial assumptions used by the actuary were:

	At 31 December 2001 %	At 30 June 2001 %
Inflation assumptions	2.50	2.50
Rate of increase of salaries	4.00	4.00
Rate of increase for pensions: in payment	4.00	4.00
deferred pensions	2.50	2.50
Rate used to discount scheme liabilities	5.80	6.25

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Fair value of scheme assets and present value of scheme liabilities at 31 December 2001:

	£	£
Fair value of the scheme's assets: bonds (grouped funding policy)	1,235,400	1,338,100
cash (trustees' bank account)	-	12,700
	<u>1,235,400</u>	<u>1,350,800</u>
Present value of the scheme's liabilities	1,235,200	1,213,500
Resulting surplus	<u>200</u>	<u>137,300</u>

18 Significant Shareholding

At 31 December 2001 the Company had an interest of 20% or more of the nominal value of the issued share capital in Epworth Investment Management Limited which is held as an investment of the Company. Mr M.A.H. Willett, a director of the Company, is also on the board of Epworth Investment Management Limited. The holding has not been dealt with in accordance with the statement of standard accounting practice relating to associated companies because the Company does not exert a significant influence over the operating and financial policy of Epworth Investment Management Limited.

Details of the Company's shareholding:

Country of incorporation	Class of shares held	Percentage held
England	Ordinary shares	25
England	9% Non-voting redeemable preference shares	25

The called-up share capital of Epworth Investment Management Limited is £100,000. The company's last accounts for the year ended 31 August 2001 show capital and reserves of £117,957 following a loss for the year of £4,499. There is no market in the company's shares which have been valued at cost in the accounts.

19 Related Party Transactions

During the period the Company ceded premiums net of claims and commissions to the value of £2,220,251 to Ecclesiastical Insurance Office plc, which also bore expenses of the Company's business of £1,682,730. At 31 December 2001 £1,304,170 was due to Ecclesiastical Insurance Office plc.