

METHODIST CHAPEL AID LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005



Company Number 30546

TENON
Accountants and Business Advisers
Tenon House
Ferryboat Lane
Sunderland
SR5 3JN

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Methodist Chapel Aid Limited

Directors

W. Arthur H. Holroyd MA DSA FIHM (Chairman)

Rev. Kenneth E. Street MA BA (Deputy Chairman)

Rev. Dr. Stuart J. Burgess BD MEd MTh MA

Michael Greenberg FCCA

Rev. Nichola G. Jones MA BA

G. Alan Pimlott ACIB

Diane Tokins

Officers, Bankers and Advisers

Secretary and Registered Office: 1 Telford Terrace, York YO24 1DQ

Authorised and regulated by the Financial Services Authority

Registered No: 30546

Secretary and Chief Executive:

John A. Wells FCMA MCMI

Principal Bankers:

HSBC Bank plc

13 Parliament Street

York YO1 8XS

Company Accountant:

David Jackson BA (Hons) ACMA

Assisted by:

Kathlyne Nicholson

Susan Roberts

Solicitors:

Harrowell Shaftoe

1 St. Saviourgate

York YO1 8ZQ

Auditor:

Tenon Audit Limited

Tenon House

Ferryboat Lane

Sunderland SR5 3JN

The Chairman's Statement

Sir William Hartley, of jam making fame, founded Methodist Chapel Aid more than a century ago to provide low interest loans to Trustees of Primitive Methodist Churches who were unable to pay their bills for church building schemes. He achieved this by persuading some relatively wealthy Methodists to put part of their savings into the Company as deposits, for which they received a modest rate of interest.

Since Sir William's day the scope of the Company's activities has widened – to embrace all Methodist Churches from 1932, and more recently to include churches of any Christian denomination. Nevertheless the Company's core purpose has remained the same – to offer loans "at the lowest practicable rate of interest", primarily for building schemes but also for other projects that can properly be said to be furthering a Church's purpose.

The Company's activities during 2005 have demonstrated continued success in fulfilling this objective. For instance, whilst the interest rate charged to Trustees for a loan on a building scheme went up on 1 March, the new rate of 4.81% was only marginally above the Bank of England's base rate at the time. The rate for a bridging loan to enable a manse to be purchased was 1% higher at 5.83%.

In contrast the rates of interest paid to those friends who deposit money with the Company remained competitive within the market place – probably much more so than in Sir William Hartley's day. The Company has a range of savings accounts available – but to give an example, £10,000 or more deposited in a Premium Account (which allows instant access to savings above the first £5,000) gained interest at a rate of 4.55% throughout 2005, and the interest rate on the Company's ISA was over 5%.

To be able to offer loans to borrowers at a very low rate of interest whilst remaining competitive in the rates of interest paid to depositors has for many years been a key part of the Company's special contribution to Methodism. Several factors make this possible, including:

- the wonderful reliability of Church Trustees in repaying loans, so avoiding the need for bad debt reserves;
- low administration costs;
- a relatively small number of issued shares and thus a low expenditure on dividends;
- substantial income received from the Company's investments on the Stock Market.

By comparison with the hectic levels of activity last year 2005 was relatively quiet, with the total amount out on loan at 31 December being £1.4 million less than a year earlier, although still more than in 2003. Nevertheless enquiries from Church Trustees about the possibility of a loan have continued apace, and the total value of loans approved by the Company but not yet called upon by Trustees rose to a new record of £3.4 million. We know from experience that much of this will in the event not be required, and we are happy to provide this kind of backstop cover, but even if half of this sum is called upon by Trustees in due course it amounts to a substantial commitment with which to begin 2006. At the end of 2005 a total of 109 Trustee bodies across the country were using a loan for building purposes and loans had been approved for 32 more Trustees. Our other borrowers were 34 Methodist ministers who were taking advantage of the Company's car loan facility.

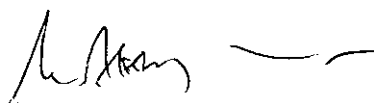
2005 ended with a healthy operating surplus, which at £168,978 was greater than for many years and, subject to approval at the Annual General Meeting, this surplus will provide further strength to the Company's capital base.

The Board has also been looking to the future, and as the basis for expanding its service to churches of other denominations as well as for sustaining its support of Methodism it has set itself the target of increasing the total value of the deposits held with the Company from the present £10 million to £11.5 million over the next three years. Interest rates paid to depositors will continue to be assessed with this objective in mind. A start has been made to recruit new depositors in the form of the Company's cash only Child Trust Fund, which at 5.1% offers a rate of interest that according to press reports is currently among the best available. In order to make our services more widely known, especially to potential depositors, the Company now has its own website.

For many years the Company has made donations out of its operating surplus for the previous year to Methodist related charitable causes. During the course of 2005 £10,000 was sent to the Methodist Relief Fund in response to the Pakistan Earthquake appeal, £9,000 was donated to other Methodist causes and the Board was also pleased to donate £500 to the York Minster Fund, within which city the company founded by Sir William Hartley has used the same offices as its base since 1900.

Whilst not subscribing to the doctrine that small is always beautiful the Directors are proud to be running a company that with only four members of staff provides a lending service in many parts of British Methodism and beyond, and a savings facility for over 1,000 depositors (and hopefully more in the future). It is the reliability and commitment of this small team of staff that ensures a high quality of service, and for their unfailing devotion to duty the Directors continue to be most grateful.

Arthur Holroyd
Chairman

A handwritten signature in dark ink, appearing to read 'Arthur Holroyd', followed by a horizontal line.

Report of the Directors

Overall performance

The operating surplus for the year was £168,978, nearly 50% higher than in 2004. The main reason for this increase was the higher level of dividends received from the Company's investments this year.

At the end of 2005 the Company's capital base increased by 11%, subject to the approval of the Annual General Meeting, and in consequence is 53% above the euro 5m threshold (compared with 32% above the threshold at the end of 2004). This increase was mainly due to the size of the Company's operating surplus and the surplus achieved on disposals of investments generated during the year.

The Company's performance on loans, deposits and investments appears on pages 6 to 10 below.

Loans

2005 saw a return to more normal levels of lending for property schemes, compared with the exceptional peak experienced in 2004.

It was noted in the Chairman's Report that at the end of 2005 the total number of Trustee bodies with live loans outstanding for building purposes was 109 (compared with 125 in 2004 and 109 in 2003). Throughout the year as a whole the average total number was 114 (compared with 126 in 2004 and 111 in 2003). A total of 31 new loans were advanced this year, less than half the number in 2004. Factors contributing to this decrease were the incidental timing of advances over the year end and a reduction in the number of loans for schemes requiring the provision of facilities for the disabled in order to comply with recent disability legislation. However, a total of 199 Trustee bodies received help or offers of help from the Company during the year, only slightly fewer than the record levels of 221 and 217 in 2004 and 2003 respectively. (Details of a few schemes where loan facilities have been arranged are shown below).

With regard to term loans, those for 4 to 10 year periods, the average number during 2005 was 105 (compared with 116 in 2004 and 107 in 2003) whilst the average total balance on loan during 2005 was £2.6m, compared with £2.8m in both 2004 and 2003.

With regard to bridging loans for manse purchase, the average number during 2005 was 9 (compared with 10 in 2004 but only 4 in 2003) whilst the average total balance was £1.1m (compared with £1.5m in 2004 and only £0.6m in 2003).

The average total balance on all property loans at the end of 2005 was £3.7m (compared with £4.3m at the end of 2004 and £3.4m in 2003).

The value of individual loan advances varied from £4,000, towards the cost of an extension to chapel premises, to £350,000 for a replacement manse for a circuit.

In addition loans approved but not yet advanced at the end of 2005 were 32 (compared with 30 at the end of 2004). Total loans approved but not advanced amounted to £3,414,230 (compared with £2,782,380 at the end of 2004) indicating a continuing high demand for the Company's support.

The Company's interest rates to borrowers for property schemes were increased in March by 0.8%, responding to increases in the Bank of England base rate. Since then there has been just one change in the Bank of England base rate – a decrease of 0.25% in August. However, the Board decided that loan rates would not be changed but would be reviewed early in 2006. They currently stand at **4.81% APR** for term loans and **5.83% APR** for bridging loans, compared with the Bank of England base rate of 4.50%.

Whilst the making of loans to trustees for property schemes remains the principal purpose of the Company, 5 new advances were made for car loans to Methodist ministers and deacons this year. As noted in the Chairman's Report the total number of car loans at the end of 2005 was 34 (compared with 36 at the end of 2004).

The interest rate charged to borrowers for car loans, applicable for all new loans approved, currently stands at **6.25% APR** fixed for the full term of the loan.

Loans advanced during the year

Barnes Methodist Church, London
 Barry Methodist Circuit
 Binstead Methodist Church, Isle of Wight
 Brightholmlee Methodist Church, Sheffield
 Broomfield Methodist Church, Chelmsford
 Chyngton Methodist Church, Seaford,
 East Sussex
 Emmanuel Methodist New Church, Reading
 Grove Methodist Church, Horsforth
 Hensall Methodist Church, Goole
 Horden Methodist Church, Peterlee
 Kings Lynn Methodist Circuit
 Lindley Methodist Church, Huddersfield
 *Loughborough Methodist Circuit
 Methodist Central Hall, Westminster, London
 Methodist International House, Manchester

Morchard Bishop Methodist Church, Devon
 Rohais Methodist Church, Guernsey
 Scopwick Methodist Church, Lincoln
 *South West Tyneside Methodist Circuit
 St. Luke's Church, Lodge Moor, Sheffield
 Stones Methodist Church, Ripponden
 Stourport Wesley Methodist Church, Worcs.
 Tansley Methodist Church, Derbyshire
 Tideswell Methodist Church, Buxton
 Tiviot Dale Methodist Church, Stockport
 Trinity Methodist Church, Barn Hill, Stamford
 Tunbridge Wells Methodist Circuit
 United Methodist Church, Coningsby, Lincs.
 Wellington Methodist Church, Telford
 Wirksworth Methodist Circuit
 Wrexham Methodist Circuit

*Loans which were opened and closed during 2005

Deposits

The total amount deposited increased by 4.7% over the year, with balances at the year end amounting to £10,301,842.

The Company's **Individual Savings Accounts (ISAs)** remained popular, with overall balances increasing by £241,018 over the year, an increase of 13.7%. The total number of ISAs also increased.

A major initiative by the Government in 2005 was the launch in April of Child Trust Funds. The Company participates in this scheme by offering Cash Savings Accounts at attractive rates of interest. This type of account, linked to the Company's strong ethical policy, is proving to be attractive to parents wishing to redeem the Inland Revenue's Voucher. In many cases further subscriptions are being made by family and friends thereby boosting a child's long term savings. 70 CTF accounts had been opened during the period.

Total deposits held in **Premium Deposit Accounts** increased by £213,596 and balances in **Standard Deposit Accounts** reduced by £57,831.

The Company's interest rates paid to depositors were increased by 0.45% on 1 May. The current gross Annual Equivalent interest rates for Premium Accounts range from **3.53% to 4.55%**, for Methodist Ministers Savings Scheme Accounts from **3.28% to 4.30%** and for Standard Savings Accounts from **3.02% to 4.04%**. The rate paid on ISAs is **5.06%**.

The three major depositors within the Methodist Church, the **Property Fund, London Mission Fund** and **Home Mission Fund**, continue to hold total balances of £800,000 on two years notice of withdrawal, whilst the **Methodist Ministers' Housing Society** continues to retain a two year notice deposit account of £100,000 with the Company. Interest is currently paid on these accounts at **5.06% AER**.

The total number of deposit accounts increased by 37 to 1,269 but this is the result of the launch of Child Trust Fund accounts and masks a drop in other depositors of 33.

The Company has again this year maintained stability in its interest rates on deposits whilst offering competitive rates to depositors.

Investments

HSBC Investment Management continued to manage the Company's investment portfolio throughout the year.

Stock Market

The recovery in the market value of the Company's portfolio which began in February 2003 continued steadily during the year. The year began with fixed interest securities and equities valued at £8,381,535 which increased over the year by £598,474 (7.1%) to £8,980,009 at the end of December, an excess of £2,943,296 over the cost. The market value of investments has now recovered the loss suffered during 2002 as shown on the graph below.

Net dividends received on equities amounted to £267,022 compared with £176,074 last year, and income from fixed interest investments was £175,749 compared with £180,346. Overall income was £86,351 more than the previous year, an increase of 24.2%.

A profit on disposal of investments arose in the year amounting to £507,663. This was reinvested primarily in Commercial loan stock, replacing maturing Treasury stock and maintaining the balance between fixed interest investments and equities in accordance with the Company's policy. This profit contributed to a further increase in the Company's capital base this year.

Commercial loan stock now accounts for 60% of total fixed interest investments. A provision for the diminution in the value of these investments has been made in the accounts amounting to £37,141. This is consistent with the treatment of Treasury Stock.

Ethical investing policy

The Company's policy statement on ethical investing reads as follows:-

"It is the Company's policy to move towards an equities portfolio of investments in companies which are seeking to address their environmental and social responsibilities alongside their economic responsibilities.

The Company will not invest in companies which are substantially involved in tobacco, gambling, alcohol, the arms trade, oppressive regimes, pornography, intensive farming, and/or activities which infringe basic human rights.

The Company will not invest in companies which are mainly involved in animal testing of cosmetic or household products, and/or in activities with a harmful ecological impact."

Principal Activities

The principal activity of the Company, in which there was no change during the year, is the financing of loans to Methodist Trustees for the provision and upkeep of Methodist property.

Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the surplus or deficit for that period. 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, subject to any material departures disclosed and explained in the financial statements;
- 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 enable them to ensure that the financial statements comply with 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.

The Directors are responsible for ensuring that the Directors' report and other information included in the annual report is prepared in accordance with company law in the United Kingdom.

Corporate Governance

In achieving high standards of corporate governance the Company has taken into account the relevant features of the New Combined Code on Corporate Governance issued in July 2003.

Proposals

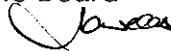
- The Directors propose a dividend of £5.80 per fully paid share and 14.50 pence per partly paid share of the Company, payable on 30 April 2006.
- Mr M Greenberg and Miss D Tokins retire by rotation and, being eligible, offer themselves for re-election.
- The Auditor, Tenon Audit Limited, has indicated its willingness to continue in office and its re-appointment for the coming year is proposed.

The interests of the Directors in the share capital of the Company and significant deposits held in their name are shown in note 21.

By Order of the Board

J A Wells

Secretary



1 February 2006

Supervision

Financial Services Authority

The Company is authorised and regulated by the Financial Services Authority and no major areas of concern have been raised during the year.

Audit

External Audit

Following the decision taken at the 115th Annual General Meeting the Company appointed Tenon Audit Limited for the year 2005.

On 28 February 2005 the company's auditor, Blueprint Audit Limited, changed its name to Tenon Audit Limited and has signed the audit report in its new name.

The external auditor's unqualified report on the accounts is set out on pages 14 and 15.

Audit Committee

The purpose of the Company's Audit Committee is to review and advise the Board on the adequacy of its financial policies and procedures, and the way in which they are being implemented, in the context of efficiency, probity, value for money, risk assessment, and conformity with legal requirements, thereby assisting Directors and officers of the Company in the effective discharge of their responsibilities.

The work of the Committee in fulfilling its purpose has been carried out with the expert help of Mr David Hatliff, the Company's internal auditor.

Independent Auditor's Report to the members of Methodist Chapel Aid Ltd

We have audited the financial statements of Methodist Chapel Aid Limited for the year ended 31 December 2005 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with the relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 Report of the Directors 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 audit, or if information specified by law regarding Directors' remuneration and transactions with the Company is not disclosed.

We read the Directors' Report and the Chairman's Statement and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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.

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2005 and of its surplus for the year ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

Tenon Audit Limited

Tenon Audit Limited
Registered Auditor
7 February 2006

Tenon House
Ferryboat Lane
Sunderland SR5 3JN

Income and Expenditure Account

For the year ended 31 December 2005

	Notes	2005 £	2004 £
Interest receivable – on loans to Methodist Trustees	1(b)	196,251	181,696
Interest receivable – on debt securities	1(c)	175,749	180,346
Interest receivable – on National Savings and bank deposits		213,599	168,547
Interest payable to depositors	1(b)	(435,950)	(355,866)
Dividend income from equity shares	1(c)	267,022	176,074
Fees and commissions payable		(35,649)	(33,447)
Other operating income		6,679	6,837
Administrative expenses – staff costs	2	(112,211)	(109,324)
Administrative expenses – other	3	(94,112)	(88,188)
Depreciation	10	(12,400)	(10,486)
Provision for bad and doubtful debts	7	–	(2,250)
Operating surplus		<u>168,978</u>	<u>113,939</u>
Surplus/(Deficit) on disposal of investments during the year		507,663	484,409
Amounts written off fixed asset investments	4	(62,623)	(27,492)
Surplus on ordinary activities before taxation		<u>614,018</u>	<u>570,856</u>
Tax on surplus on ordinary activities	5	(53,420)	11,236
Surplus for the year after taxation		<u>560,598</u>	<u>582,092</u>
Dividends proposed	6	–	(670)
Surplus for the financial year		<u>560,598</u>	<u>581,422</u>
Transfer from/(to) general reserve	16	4,280,000	(580,000)
Net surplus retained		<u>4,840,598</u>	<u>1,422</u>
Balance brought forward		<u>464,395</u>	<u>462,973</u>
Balance carried forward	16	<u><u>5,304,993</u></u>	<u><u>464,395</u></u>

All amounts relate to continuing operations.

The Company has no other recognised gains or losses other than the surplus for the year.

The movements on reserves are set out in Note 16.

The notes on pages 18 to 23 form part of these accounts.

Balance Sheet

As at 31 December 2005

	Notes	2005 £	2004 £
Fixed Assets			
Tangible fixed assets	10	37,655	40,479
Equity shares	9	3,422,270	3,303,567
Debt securities and other fixed income securities	9	<u>2,614,443</u>	<u>2,631,636</u>
		6,036,713	5,935,203
		<u>6,074,368</u>	<u>5,975,682</u>
Current Assets			
Loans and advances to customers	7, 8	3,372,168	4,760,208
Prepayments and accrued income		161,895	151,778
Cash and bank balances	8	5,601,902	3,540,067
Other debtors	12	–	11,236
Other assets	11	<u>535,867</u>	<u>230,178</u>
		9,671,832	8,693,467
Less Current Liabilities			
Customer accounts – repayable on demand	14	3,595,549	3,342,938
Customer accounts – with agreed periods of notice	14	6,706,293	6,492,797
Corporation Tax		40,012	
Taxation and social security		19,832	15,237
Proposed dividends		–	670
Accruals and deferred income		<u>76,152</u>	<u>71,915</u>
		(10,437,838)	(9,923,557)
Less Provision for Liabilities			
Deferred taxation	13	(2,172)	–
		<u>5,306,190</u>	<u>4,745,592</u>
Financed by:			
Share capital	15	1,197	1,197
General reserve	16	–	4,280,000
Retained earnings	16	<u>5,304,993</u>	<u>464,395</u>
		<u>5,306,190</u>	<u>4,745,592</u>

The notes on pages 18 to 23 form part of these accounts.

Approved by the Board on 1 February 2006

and signed on its behalf by:

W. A. H. Holroyd, Chairman

K. E. Street, Director

J. A. Wells, Secretary

Cash Flow Statement

For the year ended 31 December 2005

	Notes	2005 £	2004 £
Net cash inflow/(outflow) from operating activities	17	2,236,215	(1,534,228)
Taxation			
Taxation paid		–	–
Capital expenditure and financial investment	18	(173,710)	(339,064)
Equity dividend paid		(670)	(646)
Increase/(decrease) in cash	19	<u>2,061,835</u>	<u>(1,873,938)</u>

Notes and Accounting Policies

For the year ended 31 December 2005

1. Accounting policies

(a) Basis of preparation of financial statements

The Company is an authorised institution under the Financial Services and Markets Act 2000 and therefore in accordance with Section 257 of the Companies Act 1985 these financial statements are prepared in compliance with Section 255 of and Schedule 9 to the Companies Act 1985 and in accordance with applicable accounting standards.

(b) Interest

Interest credited to depositors and charged to borrowers is calculated on the outstanding balance on a daily basis at six-monthly rests. The dates to which interest is calculated are: borrowers 30 June and 31 December; depositors 15 May and 15 November.

(c) Investment income

Dividend income from equity shares: dividends received are accounted for on the basis of cash and exclude the attributable tax credit.

Interest receivable on debt securities: provision is made for the gross amount of interest accrued on fixed interest bearing securities.

(d) Depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets in equal instalments over their expected useful lives.

The following rates have been applied:

Leasehold improvements	15 years
Office equipment	5 years
Computer equipment	3 to 5 years

(e) Operating leases

Operating lease rentals are charged in the profit and loss account on a straight line basis over the term of the lease.

(f) Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more or a right to pay less in the future have occurred by the balance sheet date with certain limited exceptions.

Deferred tax is calculated on an undiscounted basis at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

(g) Investments

Equity investments are stated at cost less provision for any permanent diminution in value. Debt securities and other fixed income securities are stated at cost, with premiums/ discounts to par value amortised on a straight line basis over the period to redemption.

(h) General provision for bad debts

A general provision is made against those unsecured advances which have not been specifically identified as impaired, but where the company's experience and the general economic climate indicate that losses may ultimately be realised. The provision is to be calculated as 2.5% of £200,000, which is the maximum unsecured balances to be outstanding at any one time.

The Company's other accounting policies are disclosed under the appropriate headings in the following notes.

2. Staff costs

Staff costs were as follows:

	2005	2004
	£	£
Wages and Salaries	103,166	100,497
Social Security Costs	9,045	8,827
	<u>112,211</u>	<u>109,324</u>

Wages and salaries includes an amount of £10,500 (2004: £10,200) paid in respect of directors' emoluments. The average monthly number of employees (full time equivalent) during the year was

No.	No.
<u>3</u>	<u>3</u>

3. Other administrative expenses

In addition to office maintenance costs significant items under this heading are £11,620 (2004: £10,228) for IT software and support, £16,198 (2004: £10,043) for advertising, £11,778 (2004: £13,698) for professional fees and £5,000 (2004: £5,000) in respect of operating leases for land and buildings. Donations paid were £19,500 (2004: £19,000).

Also included within other administrative expenses is an amount of £6,462 (2004: £6,462) in respect of the external auditor's remuneration in its capacity as auditor, and an amount of £2,468 (2004: £2,468) in respect of other services.

4. Amounts written off fixed asset investments

	2005 £	2004 £
Amortisation of premium on Commercial Stock	37,141	-
Amortisation of premium on Treasury Stock	25,482	27,492
	<u>62,623</u>	<u>27,492</u>

The premium on Treasury Stock and Commercial Stock is amortised on a straight line basis over the period from purchase to redemption date.

5. Tax on surplus on ordinary activities

a) Analysis of charge in year

	2005 £	2004 £
Current tax		
UK corporation tax on profits of the year	40,012	-
Total current tax	40,012	-
Deferred tax		
Origination and reversal of timing differences (note 13)	13,408	(11,236)
	<u>53,420</u>	<u>(11,236)</u>

In 2004 the credit balance on the tax charge relates to a deferred tax asset as detailed in note 13. This was due to the taxable losses exceeding the excess of taxation allowances over the depreciation of fixed assets. In 2005 the taxable losses are lower than the excess of taxation allowances over the depreciation of fixed assets.

b) Factors affecting tax charge for the year

Surplus on ordinary activities before tax	614,018	570,856
Surplus on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004 30%)	184,205	171,257
Effects of:		
Expenses not deductible for tax purposes	557	557
Depreciation in excess of capital allowances	974	(27)
Franked investment income	(80,107)	(52,822)
Income not taxable for tax purposes	(152,105)	(108,623)
Chargeable gains	111,172	38,843
Marginal relief	(10,283)	-
Utilisation of tax losses	(14,401)	(49,185)
	<u>40,012</u>	<u>-</u>

6. Dividends

	2005 £	2004 £
Dividends proposed:		
Partly paid up shares at £nil (2004: 14.00p)	-	575
Fully paid up shares at £nil (2004: £5.60)	-	95
	<u>-</u>	<u>670</u>

Dividends have been proposed of 14.5p per partly paid share and £5.80 per fully paid share. These will be paid after the Annual General Meeting.

7. Loans and advances to customers

	At 31 Dec 2004	Advanced	Repaid	Provided	At 31 Dec 2005
	£	£	£	£	£
Property loans (secured)	4,617,055	3,330,503	(4,675,199)	–	3,272,359
Vehicle loans (unsecured)	148,153	36,075	(79,419)	–	104,809
	<u>4,765,208</u>	<u>3,366,578</u>	<u>(4,754,618)</u>	<u>–</u>	<u>3,377,168</u>
General provision for bad debts (5,000)	(5,000)	–	–	–	(5,000)
	<u>4,760,208</u>	<u>3,366,578</u>	<u>(4,754,618)</u>	<u>–</u>	<u>3,372,168</u>

8. Analysis of maturity of bank deposit accounts, loans and advances to customers and customer accounts

Bank deposit accounts

Balances on bank deposit accounts are all due to mature in three months or less.

Loans and advances to customers

The maturity of advances to customers from the balance sheet date is as follows:

	2005	2004
	£	£
Repayable on demand	–	–
In more than three months but not more than one year	563,614	1,992,946
In more than one year but not more than five years	1,992,236	1,999,440
In more than five years	821,318	772,822
Less: General provision for bad debts (5,000)	(5,000)	(5,000)
Total (note 7)	<u>3,372,168</u>	<u>4,760,208</u>

Customer accounts

Deposits are repayable from the date of the balance sheet in the ordinary course of business as follows:

	2005	2004
	£	£
In one year or less or repayable on demand	9,386,535	8,920,328
In more than one year but not more than two years	915,307	915,407
	<u>10,301,842</u>	<u>9,835,735</u>

9. Quoted investments

Equity shares

	At 31 Dec 2004	Purchases	Disposals	Amounts written off investments	At 31 Dec 2005
	£	£	£	£	£
At cost	<u>3,303,567</u>	<u>1,045,498</u>	<u>(926,795)</u>	<u>–</u>	<u>3,422,270</u>
At market value	<u>5,643,085</u>				<u>6,223,584</u>

Debt Securities and other fixed income securities

	At 31 Dec 2004	Purchases	Disposals	Amounts written off investments	At 31 Dec 2005
	£	£	£	£	£
At cost	<u>2,631,636</u>	<u>580,533</u>	<u>(535,103)</u>	<u>(62,623)</u>	<u>2,614,443</u>
At market value	<u>2,738,450</u>				<u>2,756,425</u>

The market values of the securities includes accrued interest of £63,092 (2004: £64,306). If the above investments were realised at the balance sheet date corporation tax implications would arise on gains/losses made. Hence there is an undisclosed deferred tax liability in the region of £883,000 (assuming a tax rate of 30%). Amounts written off investments are detailed in Note 4.

10. Fixed assets

	Leasehold Improvements	Office Equipment	Computer Equipment	Total
Cost	£	£	£	£
At 1 January 2005	27,857	20,022	63,745	111,624
Additions	–	–	9,576	9,576
At 31 December 2005	<u>27,857</u>	<u>20,022</u>	<u>73,321</u>	<u>121,200</u>
Depreciation				
At 1 January 2005	12,898	15,541	42,706	71,145
Charge for year	<u>1,857</u>	<u>1,148</u>	<u>9,395</u>	<u>12,400</u>
At 31 December 2005	<u>14,755</u>	<u>16,689</u>	<u>52,101</u>	<u>83,545</u>
Net book amounts				
At 31 December 2005	<u>13,102</u>	<u>3,333</u>	<u>21,220</u>	<u>37,655</u>
At 31 December 2004	<u>14,959</u>	<u>4,481</u>	<u>21,039</u>	<u>40,479</u>

11. Other assets

	2005	2004
	£	£
Funds held by HSBC for investment	<u>535,867</u>	<u>230,178</u>

12. Other debtors

	2005	2004
	£	£
Deferred taxation (note 13)	<u>–</u>	<u>11,236</u>

13. Deferred taxation

The deferred tax included in the Balance sheet is as follows:

	2005	2004
	£	£
Included in debtors (note 12)	<u>–</u>	<u>11,236</u>
Included in liabilities and charges (Balance Sheet)	<u>2,172</u>	<u>–</u>

The movement in the deferred taxation account during the year was:

	2005	2004
	£	£
At 1 January 2005	(11,236)	–
Income and expenditure account movement arising during the year	<u>13,408</u>	<u>(11,236)</u>
At 31 December 2005	<u>2,172</u>	<u>(11,236)</u>

The balance of the deferred taxation account consists of the tax effect of timing differences in respect of:

	2005	2004
	£	£
Excess of taxation allowances over depreciation of fixed assets	3,672	4,646
Tax losses available	<u>(1,500)</u>	<u>(15,882)</u>
	<u>2,172</u>	<u>(11,236)</u>

14. Customer accounts

Amounts standing to the credit of depositors

	2005	2004
	£	£
At 1st January 2005	9,835,735	10,138,284
Received	1,893,673	2,000,030
Withdrawn	(1,427,566)	(2,302,579)
At 31st December 2005	<u>10,301,842</u>	<u>9,835,735</u>

Included within customer accounts repayable on demand is £4,265,744 (2004: £4,344,782) which is held in premium and special notice accounts and represents the balances on those accounts on which no notice is required.

15. Share capital

There was no change in the share capital during the year.

	£
Authorised 5,000 shares of £10 each	<u>50,000</u>
Issued 17 shares of £10 each fully paid	170
4,108 shares of £10 each 25p paid	1,027
	<u>1,197</u>

16. Reserves

	General Reserve	Income and Expenditure Account
	£	£
At 1 January 2005	4,280,000	464,395
Net surplus for year	–	560,598
Transfer from general reserve	(4,280,000)	4,280,000
At 31 December 2005	<u>–</u>	<u>5,304,993</u>

17. Reconciliation of operating surplus to net cash (outflow)/inflow from operating activities

	2005	2004
	£	£
Net surplus on ordinary activities	614,018	570,856
Net (increase) in prepayments and accrued income	(10,117)	(44,547)
Depreciation	12,402	10,486
Net (increase) in other assets	(305,690)	(230,178)
Net increase in accruals and deferred income	4,237	9,342
Net increase in taxation and social security	4,595	1,926
Amounts written off investments	62,623	27,492
Net cash inflow from trading activities	<u>382,068</u>	<u>345,377</u>
Net increase/(decrease) in deposits	466,107	(302,549)
Net decrease/(increase) in loans to Methodist Trustees	1,388,040	(1,577,056)
Net cash inflow/(outflow) from operating activities	<u>2,236,215</u>	<u>(1,534,228)</u>

18. Capital expenditure and financial investment

Purchase of investments	(1,626,032)	(1,706,728)
Sale of investments	1,461,899	1,376,790
Purchase of tangible fixed assets	(9,577)	(9,126)
	<u>(173,710)</u>	<u>(339,064)</u>

19. Analysis of the balances of cash as shown in the balance sheet

	2005	2004	Cash flow
	£	£	£
Bank deposits	51,060	221,670	(170,610)
Bank deposit accounts	5,523,775	3,291,330	2,232,445
National Savings deposits	27,067	27,067	–
	<u>5,601,902</u>	<u>3,540,067</u>	<u>2,061,835</u>

20. Related party transactions

All applications by church bodies for a loan have been approved by the Property Committee of the Methodist Church.

Two directors, Mr. Alan Pimlott and Rev. Kenneth Street, are members of the Board of the Trustees for Methodist Church Purposes.

Trustees for Methodist Church Purposes hold as custodians 30.0% (2004: 31.4%) of the share capital of the Company and have deposits as custodians of £454,975 (2004: £455,164) with the Company.

Rev. Kenneth Street, a director, has an interest in a loan of £12,750 (2004: £14,875) to John Wesley's Chapel, Bristol.

21. Directors' shareholdings and deposits

The interests of the directors in the share capital and deposit balances of the Company are stated below:

	Ordinary Shares of £10 each, 25 pence paid		Amounts held on deposit	
	At 31 Dec 2005	At 31 Dec 2004	At 31 Dec 2005	At 31 Dec 2004
	No.	No.	£	£
Rev. Dr. Stuart J. Burgess	102	97	8,112	1,287
Michael Greenberg	205	205	14,372	13,891
W. Arthur H. Holroyd	645	645	23,477	18,641
Rev. Nichola G. Jones	114	100	14,176	5,311
G. Alan Pimlott	20	—	—	—
Rev. Kenneth E. Street	50	50	11,768	9,738
Diane Tokins	60	60	—	—
	<u>1,196</u>	<u>1,157</u>	<u>71,905</u>	<u>48,868</u>

22. Other commitments

At 31 December 2005 the Company had annual commitments under operating leases as follows:

	Land and Buildings	
	2005	2004
	£	£
Expiry date:		
In more than 5 years	<u>5,000</u>	<u>5,000</u>

23. Financial Risk Management

Interest Rate Risk

The Company does not take deposits or make loans on fixed rate terms, apart from a limited level of fixed rate vehicle loans up to a value of £200,000, and therefore is not directly exposed to movements in interest rates regarding its core business. The only fixed rate instruments held are government stock and all cash and bank balances are on variable interest rate terms. Consequently the Company does not actively manage interest rate risk and does not use hedging instruments or derivative financial instruments.

Derivatives are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract of agreement, such as interest rates, exchange rate or stock market indices.

Equity shares are held as long term investments and are not actively traded and therefore the Company does not hedge against risks regarding stock market movements.

Liquidity Risk

The Company's liquidity policy is to maintain sufficient liquid resources to cover cashflow imbalances and fluctuations in funding, to retain full public confidence in the solvency of the Company and to enable the Company to meet its financial obligations. This is achieved through maintaining a prudent level of liquid assets.

Notice of Meeting

NOTICE IS HEREBY GIVEN that the 116th ANNUAL GENERAL MEETING of the Members will be held at the BEECHWOOD CLOSE HOTEL, SHIPTON ROAD, YORK, on 29 MARCH 2006, at 12.45 p.m. for the following purposes:

1. To receive and consider the Directors' Report and Statement of Accounts and Balance Sheet, and the Auditor's Report thereon.
2. To declare a dividend.
3. To elect directors.
4. To set directors' fees.
5. To re-appoint Tenon Audit Limited as auditor for 2006 and authorise the directors to fix its remuneration.
6. To transact any other business of an Annual General Meeting.

1 March 2006

By Order of the Board

J. A. WELLS

Secretary



Note: A Shareholder entitled to attend and vote is entitled to appoint a proxy, not necessarily a shareholder, to vote in his or her stead.