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REPORT & ACCOUNTS 1998

METHODIST INSURANCE

Contents

Mission Statement

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 twenty-sixth Annual General Meeting of the Company will be held at the Company's offices, Brazennose House, Brazennose Street, Manchester, on Wednesday, 21 October 1998 at 12.30 p.m. to transact the following ordinary business:

Resolution No. 1	To receive and consider the Report of the Directors and the Accounts for the year ended 30 June 1998.
Resolution No. 2	To declare a dividend.
Resolution No. 3	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:
Resolution No. 4	Ralph E. Fennell.
Resolution No. 5	Colin H. Boothman.
Resolution No. 6	Martin V. Caldwell.
Resolution No. 7	To re-appoint KPMG Audit Plc as auditors and to authorise the directors to fix their remuneration.

To transact any other ordinary business.

By Order of the Board,
G. SIMPSON, Secretary.
29 September 1998.

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.	Chairman.
Michael A. H. Willett, F.I.A.	Deputy Chairman.
Susan R. Howdle, B.C.L., M.A.	
Rev. Ralph E. Fennell, 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.	
David A. Blanks, B.A., F.C.I.I.	

Officers

David A. Blanks, B.A., F.C.I.I.	General Manager.
Grayham Simpson, F.C.I.S.	Financial Controller and Secretary.

Head Office and Registered Address

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

Irish Office

Ecclesiastical Insurance Office plc, 65 Fitzwilliam Square, Dublin 2.

Desmond Campbell.	Attorney for the Republic of Ireland.

Auditors

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

Bankers

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

Statement by the Chairman

All that glitters is not gold!

You will see from the accounts that in the year to 30 June 1998 we have an operating profit on ordinary activities of £2,634,626 compared with £1,843,055 in the previous year. Included in this year's profit is £2,553,405 of unrealised gains on investments. If this unrealised gain is ignored there is a profit of £81,221 compared with £598,364 last year.

Gross premiums written have fallen by 5%, which reflects the ever competitive market in which we operate. Net premiums retained after reinsurance however, have remained at virtually the same level as hitherto. This has reduced the commission we receive from reinsurance and profit participation from £1,049,640 to £911,939.

Net claims have fallen from their record high level, but are disproportionately affected by the continuing notification of child abuse and liability claims which have been provided for.

The reduction in reinsurance profit commission together with the payment of an additional £200,000 to our pension fund, have combined to show an apparently large increase in our net operating expenses.

We continue to put much effort into the installation of our new computer. This has proved far more time consuming and costly than originally anticipated, our only comfort being that this is heard so often from others when in a similar situation ! Much is heard about the computer problems which may result from the Millennium. We have taken steps to ensure that we can give a seamless service not only with our existing computer but also from the new installation.

Despite the fall in profit after eliminating the unrealised gains on investments, we have maintained the amount of grants paid to the Methodist Church at £300,000.

In these days of fierce competition, the importance of Circuits' support of our church account to the Methodist Church should not be underestimated. Not only do we carefully structure our policies to meet the needs of Circuits but our sympathetic attention to their claims reflects our personal knowledge and understanding of their situation. As I reminded you last year, we are not here to enrich ourselves but to serve the Methodist Church. With premiums that do not penalise high risk areas, surplus funds benefitting the Ministers' Pension Scheme, the Ministers' Housing Society and the Property Fund as major grant beneficiaries in recent years, to say nothing of the many grants paid to churches' property schemes, the benefits are widely spread.

Having celebrated our first 125 years, your Board has been laying plans for the future.
It is our belief that we have a duty to:

- provide competitive insurance cover especially having regards to the needs of the Methodist Church;
- be caring employers;
- be good stewards of the Company's resources whilst making appropriate sums available to the Methodist Church by way of grants.

After careful consideration of all the alternatives we began conversations with the directors of Ecclesiastical Insurance Office plc. This led to our announcement in April of the agreement of the special relationship with them now effective from 1 July 1998. We entered into this agreement because we share common beliefs, we both have a commitment to the Church and we both believe in providing secure employment for our staff.

The Joint Administration and 100% Reinsurance agreements signed do not effect the identity of Methodist Insurance PLC nor our service to our policyholders from our Manchester office. The shareholders of the Company and your Board of Directors remain unchanged. We believe all will have been strengthened by the new partnership whose combined resources make us better able to meet the challenges of today's marketplace.

My sincere thanks to my Deputy Chairman, Michael Willett and my colleagues on the Board who share the leadership responsibility for your Company. This has been a year of change and challenge for our staff and sincere thanks are richly deserved by David Blanks, Grayham Simpson and their colleagues for the daily running of the Company. Thanks too are due to the insurance intermediaries who support us and to the Superintendent Ministers who act as our agents at Circuit level.

I am confident about the Company's future and look forward to the challenges of the years ahead.

Herbert W. Tuckey - Chairman.

Report of the Directors

The directors submit the Annual Report and Accounts of the Company for the year ended 30 June 1998.

Financial Results
The Profit and Loss Account on pages 7 and 8 shows the profit for the year.
The directors recommend a dividend for the year 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 5.

Directors
The names of the present directors are shown on page 4.
Rev. R.E. Fennell, Mr. C.H. Boothman and Rev. M.V. Caldwell 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:

	30 June 1998	30 June 1997		30 June 1998	30 June 1997 (or date of appointment)
H.W. Tuckey	825	500	C.H. Boothman	500	500
M.A.H. Willett	825	500	Rev. G.M. Wearing	35	35
S.R. Howdle	250	250	Rev. M.V. Caldwell	75	75
Rev. R.E. Fennell	25	25	C.F. Nock	250	250
A.G. Gibbs	300	300	D.A. Blanks	935	835

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:

a) select suitable accounting policies and then apply them consistently;
b) make judgements and estimates that are reasonable and prudent;
c) state whether applicable accounting standards have been followed;
d) 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 year amounted to £300,904 (1997 £302,048). There were no contributions for political purposes.

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. The number of days billings from suppliers outstanding at the end of the financial year was 38.

Post Balance Sheet Event
The Company has signed a joint administration agreement with Ecclesiastical Insurance Office plc to manage and administer its insurance business from 1 July 1998. As a consequence the Company has agreed to cede to Ecclesiastical Insurance Office plc all insurances incepting from that date.

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.
11 September 1998.

G. Simpson

Profit and Loss Account : Technical Account - General Business

(continuing operations)

For the year ended 30 June 1998

	Note	1998 £	1998 £	1997 £	1997 £
Earned premiums, net of reinsurance					
Gross premiums written	1	7,294,735		7,667,526	
Outward reinsurance premiums		(3,238,585)		(3,614,795)	
			4,056,150		4,052,731
Change in the gross provision for unearned premiums		252,290		2,770	
Change in the gross provision for unearned premiums, reinsurers' share		(190,307)		42,752	
			61,983		45,522
			4,118,133		4,098,253
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(4,149,407)		(4,245,753)	
Reinsurers' share		1,214,499		1,789,653	
		(2,934,908)		(2,456,100)	
Change in the provision for claims					
Gross amount		(1,332,402)		(6,171,206)	
Reinsurers' share		755,816		4,390,674	
		(576,586)		(1,780,532)	
			(3,511,494)		(4,236,632)
Net operating expenses	3		(1,315,796)		(973,762)
General business operating result			(709,157)		(1,112,141)
Change in the equalisation provision	4		(102,295)		949,603
Balance on the technical account for general business	1		(811,452)		(162,538)

The accounting policies and notes on pages 13 to 19 form an integral part of these accounts.

Profit and Loss Account : Non-technical Account

(continuing operations)

For the year ended 30 June 1998

	Note	1998 £	1998 £	1997 £	1997 £
Balance on the general business technical account			(811,452)		(162,538)
Investment income	5	892,673		775,277	
Unrealised gains on investments		2,553,405		1,244,691	
Investment expenses and charges	6	-		(14,375)	
			3,446,078		2,005,593
Operating profit on ordinary activities before other charges			2,634,626		1,843,055
Charitable grant to Methodist funds and organisations			(300,000)		(300,000)
Profit on ordinary activities before tax			2,334,626		1,543,055
Tax on profit on ordinary activities	7		(767,244)		(48,443)
Profit on ordinary activities after tax			1,567,382		1,494,612
Dividends proposed			(187)		(187)
Profit for the financial year	8		1,567,195		1,494,425

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

The accounting policies and notes on pages 13 to 19 form an integral part of these accounts.

Statement of Historical Cost Profits and Losses

For the year ended 30 June 1998

	1998	1997
	£	£
Profit on ordinary activities before tax	2,334,626	1,543,055
Realisation of revaluation gains on previous years	145,615	42,556
Net unrealised gains	(2,553,405)	(1,244,691)
Historical cost (loss)/profit on ordinary activities before tax	(73,164)	340,920
Historical cost (loss)/profit for the financial year	(840,595)	292,290

Reconciliation of Movements in Shareholders' Funds

For the year ended 30 June 1998

	1998	1997
	£	£
Profit on ordinary activities after tax	1,567,382	1,494,612
Dividends proposed	(187)	(187)
Profit for the financial year	1,567,195	1,494,425
Claims equalisation reserve released to the general business technical account	-	(1,050,000)
Opening shareholders' funds	6,926,228	6,481,803
Closing shareholders' funds	8,493,423	6,926,228

The accounting policies and notes on pages 13 to 19 form an integral part of these accounts.

Balance Sheet

As at 30 June 1998

			1998		1997
Assets	Note	£	£	£	£
Investments					
Other financial investments	9		17,668,963		14,562,683
Reinsurers' share of technical provisions					
Provision for unearned premiums		1,627,601		1,817,908	
Claims outstanding		7,467,770		6,711,954	
			9,095,371		8,529,862
Debtors					
Debtors arising out of direct insurance operations					
Policyholders		64,313		64,633	
Intermediaries		554,427		613,814	
		618,740		678,447	
Debtors arising out of reinsurance operations		379		107,645	
Other debtors		21,417		156,849	
			640,536		942,941
Other assets					
Tangible assets	10	603,669		515,747	
Cash at bank and in hand	11c	884,557		810,783	
			1,488,226		1,326,530
Prepayments and accrued income					
Accrued interest and rent		167,145		155,455	
Deferred acquisition costs		240,667		254,381	
Other prepayments and accrued income		218,019		256,038	
			625,831		665,874
			29,518,927		26,027,890

The accounting policies and notes on pages 13 to 19 form an integral part of these accounts.

Balance Sheet

As at 30 June 1998

Liabilities	Note	1998 £	1998 £	1997 £	1997 £
Capital and reserves					
Called up share capital	12	112,500		112,500	
Profit and loss account	8	8,380,923		6,813,728	
			8,493,423		6,926,228
Technical provisions					
Provisions for unearned premiums		3,988,033		4,240,323	
Claims outstanding		14,864,652		13,532,250	
Equalisation provision	4	202,692		100,397	
			19,055,377		17,872,970
Provisions for other risks and charges	13		1,359,203		911,455
Creditors					
Creditors arising out of direct insurance operations					
Policyholders		12,862		15,230	
Intermediaries		2,258		8,650	
		15,120		23,880	
Creditors arising out of reinsurance operations		197,078		86,106	
Other creditors including taxation and social security	14	363,554		170,110	
Proposed dividend		187		187	
			575,939		280,283
Accruals and deferred income			34,985		36,954
			29,518,927		26,027,890

The financial statements were approved by the board of directors on 11 September 1998 and were signed on its behalf by:

Herbert W. Túckey, Chairman.

The accounting policies and notes on pages 13 to 19 form an integral part of these accounts.

Cash Flow Statement

For the year ended 30 June 1998

	Note	1998 £	1998 £	1997 £	1997 £
Net cash inflow from operating activities	11a		1,272,050		1,286,139
Taxation					
U.K. corporation tax paid		(47,854)		(154,471)	
Overseas tax paid		(961)	(48,815)	(1,355)	(155,826)
Capital expenditure					
Purchase of tangible fixed assets		(350,316)		(332,062)	
Sale of tangible fixed assets		-	(350,316)	19,810	(312,252)
Equity dividends paid			(187)		(187)
Charitable grants paid			(300,000)		(300,000)
Net cash inflow			572,732		517,874
Cash flows were invested as follows:					
Increase/(Decrease) in cash holdings			73,774		(68,844)
Net portfolio investment					
Shares and other variable yield securities		(63,979)		8,878	
Debt securities and other fixed income securities		610,982		414,578	
Loans secured by mortgages		(19,302)		(10,198)	
Other loans: unsecured		(4,410)		(5,160)	
Deposits with credit institutions	11b	(24,333)	498,958	178,620	586,718
Net investment of cash flows			572,732		517,874

Movement in opening and closing cash and portfolio investments

	Note	£
Net cash inflow for the period		73,774
Cash flow from portfolio investments		498,958
Movements arising from cash flows		572,732
Changes in market values		2,607,322
Total movement in cash and portfolio investments		3,180,054
Cash and portfolio investments at 1 July 1997		15,373,466
Cash and portfolio investments at 30 June 1998	11c	18,553,520

The accounting policies and notes on pages 13 to 19 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 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. Premium income

1. Premiums written are accounted for in the year in which the risk commences.
2. Unearned premiums represent that proportion of premiums written in the year to 30 June, which relate to periods from 1 July to the subsequent dates of expiry of the policies, and have been computed as follows:-
(i) Direct business - on a daily pro-rata basis.
(ii) Inwards treaty business - as provided for in the respective treaty contracts.

C. Claims

1. Outstanding

Provisions for notified claims as at 30 June each year 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 30 June.
Any differences between original claims provisions and subsequent re-estimates or settlements are reflected in the underwriting results of the year 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 has been established comprising amounts set aside 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.

D. Investments

1. Investment income

Investment income is accounted for on an accruals basis, including, where appropriate, the imputed tax credit. 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.

E. **Capital expenditure**

Expenditure on computer equipment and software, office equipment, furniture, fixtures and fittings, and motor vehicles is capitalised and depreciated by equal annual instalments over the estimated useful lives of the assets, which are as follows:

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

F. **Deferred acquisition expenses**

Provision is made for deferred acquisition expenses representing commission relating to unearned premiums and has been based on actual expenses.

G. **Foreign currencies**

Assets and liabilities in foreign currencies have been converted into sterling at the rates of exchange ruling at 30 June. Differences on exchange have been dealt with through the Profit and Loss Account.

H. Taxation

The charge for taxation is based on the profit for the year 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.

1 Segmental Information

a. **Geographical analysis**

	1998 Gross premiums written £	1998 Profit before tax £	1998 Net assets £	1997 Gross premiums written £	1997 Profit before tax £	1997 Net assets £
United Kingdom	7,061,346	2,189,956	8,010,842	7,412,066	462,810	6,652,993
Eire	233,389	144,670	482,581	255,460	30,245	273,235
Total	7,294,735	2,334,626	8,493,423	7,667,526	493,055	6,926,228

b. **Technical account analysis**

	Direct fire and damage to property £	Direct liability £	Direct accident and health £	Direct miscellaneous financial loss £	Direct total £	Reinsurance £	Grand total £
1998							
Gross premiums written	6,219,617	646,985	159,315	69,815	7,095,732	199,003	7,294,735
Gross premiums earned	6,334,417	749,217	160,470	71,804	7,315,908	231,117	7,547,025
Gross claims incurred	4,004,753	1,446,691	(2,797)	12,333	5,460,980	20,829	5,481,809
Gross operating expenses	1,830,319	190,423	46,838	20,578	2,088,158	139,577	2,227,735
Gross technical result	499,345	(887,897)	116,429	38,893	(233,230)	70,711	(162,519)
Reinsurance balance	350,505	248,495	1,966	35,609	636,575	12,358	648,933
Net technical result	148,840	(1,136,392)	114,463	3,284	(869,805)	58,353	(811,452)
1997							
Gross premiums written	6,396,309	752,096	156,817	71,701	7,376,923	290,603	7,667,526
Gross premiums earned	6,393,273	744,971	156,523	74,200	7,368,967	301,329	7,670,296
Gross claims incurred	3,095,251	7,174,891	46,282	12,161	10,328,585	88,374	10,416,959
Gross operating expenses	1,596,842	187,793	39,086	19,733	1,843,454	179,948	2,023,402
Gross technical result	1,701,180	(6,617,713)	71,155	42,306	(4,803,072)	33,007	(4,770,065)
Reinsurance balance	1,200,853	(4,818,262)	1,956	37,679	(3,577,774)	20,247	(3,557,527)
Net technical result	500,327	(1,799,451)	69,199	4,627	(1,225,298)	12,760	(1,212,538)

Commission payable in respect of direct insurance is £449,587 (1997 £462,825).

2 Prior Years' Claims Provisions

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

	1998	1997
	£	£
Fire and damage to property	501,310	415,833
Liability	(1,070,345)	(1,722,472)
Accident and health	33,545	9,516
Miscellaneous financial loss	3,730	1,084
	(531,760)	(1,296,039)

3 **Net Operating Expenses**

	1998	1997
	£	£
Acquisition costs, being commissions	435,834	453,431
Change in gross deferred acquisition costs	13,714	9,394
	449,548	462,825
Administrative expenses	1,778,187	1,560,577
Gross operating expenses	2,227,735	2,023,402
Reinsurance commissions and profit participation	(911,939)	(1,049,640)
	1,315,796	973,762
Net operating expenses include:		
Directors' emoluments		
Executive capacity (excluding pension contributions)	77,106	-
Non-executive capacity (excluding pension contributions)	28,686	20,324
Pension Contributions	9,274	-
Pension to former director	13,107	12,631
Auditors' remuneration		
Audit fees	14,913	17,956
Non-audit fees	3,713	8,949
Depreciation	262,394	175,343

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 and, as such, these reserves are over and above the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. The charge to the general business technical account of £102,295 has increased the provision to £202,692. Last year the charge to the general business technical account of £100,397 was netted with £1,050,000 released from the equalisation reserve to give an overall credit of £949,603.

5 **Investment Income**

	1998	1997
	£	£
Income from investments	838,756	775,277
Gains on the realisation of investments	53,917	-
	892,673	775,277

6 Investment Expenses and Charges

	1998	1997
	£	£
Losses on the realisation of investments	-	(14,375)

Notes on the Accounts (continued)

7 Taxation

	1998 £	1997 £
U.K. corporation tax at 31%	340,000	-
Over provision in respect of prior years	(25,001)	(131,680)
Tax in respect of U.K. dividends received	4,497	38,415
	319,496	(93,265)
Deferred taxation	447,748	141,708
	767,244	48,443

8 Reserves

	Profit & loss account £
At beginning of year	6,813,728
Profit for the financial year	1,567,195
At end of year	8,380,923

9 Investments

	Market value 1998 £	Market value 1997 £	Cost 1998 £	Cost 1997 £
Shares and other variable-yield securities	6,517,537	5,152,506	1,911,092	1,783,784
Debt securities and other fixed-income securities	8,719,774	6,930,480	6,815,129	6,195,901
Loans secured by mortgages	164,800	184,102	164,800	184,102
Other loans: unsecured	885	5,295	885	5,295
Deposits with credit institutions	2,265,967	2,290,300	2,265,967	2,290,300
	17,668,963	14,562,683	11,157,873	10,459,382
Investments listed on the U.K. Stock Exchange included above	15,212,312	12,057,986	8,701,221	7,954,686

10 Tangible Assets

	Computer equipment & software £	Office equipment fixtures & fittings £	Motor vehicles £	Total £
Cost				
At 1 July 1997	644,957	188,483	68,262	901,702
Additions	349,184	1,132	-	350,316
Disposals	(237)	-	-	(237)
At 30 June 1998	993,904	189,615	68,262	1,251,781
Accumulated depreciation				
At 1 July 1997	302,651	64,004	19,300	385,955
Depreciation for the year	223,998	24,744	13,652	262,394
Disposals	(237)	-	-	(237)
At 30 June 1998	526,412	88,748	32,952	648,112
Net book value				
At 30 June 1998	467,492	100,867	35,310	603,669
At 30 June 1997	342,305	124,479	48,963	515,747

11 Cash Flow Statement

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

	1998 £	1997 £
Profit on ordinary activities before other charges	2,634,626	1,843,055
Depreciation charges	262,394	175,343
Loss on sale of tangible fixed assets	-	2,813
Unrealised gains on investments	(2,553,405)	(1,244,691)
Realised (gains)/losses on investments	(53,917)	14,375
Decrease/(Increase) in debtors	163,451	(22,614)
Decrease/(Increase) in prepayments and accrued income	40,043	(56,106)
Increase in technical provisions	616,898	1,835,407
Increase/(Decrease) in creditors	168,426	(159,202)
Tax in respect of U.K. dividends received	(4,497)	(38,415)
(Decrease) in accruals and deferred income	(1,969)	(13,826)
(Decrease) in claims equalisation reserve	-	(1,050,000)
Net cash inflow from operating activities	1,272,050	1,286,139

b. Net portfolio investments

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

	Purchases 1998 £	Sales 1998 £	Net 1998 £	Purchases 1997 £	Sales 1997 £	Net 1997 £
Shares and other variable yield securities	300,158	364,137	(63,979)	328,019	319,141	8,878
Debt securities and other fixed income securities	860,982	250,000	610,982	414,578	-	414,578
Loans secured by mortgage	19,000	38,302	(19,302)	-	10,198	(10,198)
Other loans: unsecured	-	4,410	(4,410)	-	5,160	(5,160)
	1,180,140	656,849	523,291	742,597	334,499	408,098
Deposits with credit institutions			(24,333)			178,620
			498,958			586,718

c. Movement in cash and portfolio investments

	At 1 July 1997 £	Cash flow £	Changes to market value £	At 30 June 1998 £
Cash at bank and in hand	810,783	73,774	-	884,557
Shares and other variable yield securities	5,152,506	(63,979)	1,429,010	6,517,537
Debt securities and other fixed income securities	6,930,480	610,982	1,178,312	8,719,774
Loans secured by mortgages	184,102	(19,302)	-	164,800
Other loans: unsecured	5,295	(4,410)	-	885
Deposits with credit institutions	2,290,300	(24,333)	-	2,265,967
	15,373,466	572,732	2,607,322	18,553,520

12 Share Capital

At 30 June 1998 and 1997	Authorised £	Issued £
18,750 shares of £6 each fully paid	112,500	112,500

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 Provisions for Other Risks and Charges

Deferred taxation

	£
At beginning of year	911,455
Charge for the year in the profit and loss account	447,748
At end of year	1,359,203

Deferred taxation has been fully provided for as follows:

	1998 £	1997 £
Difference between accumulated depreciation and capital allowances	12,549	(504)
On revaluation of investments	1,427,998	1,044,304
Other timing differences	(81,344)	(132,345)
	1,359,203	911,455

14 Other Creditors including Taxation and Social Security

	1998 £	1997 £
Taxation payable	145,024	-
Social security	35,042	26,802
Other	183,488	143,308
	363,554	170,110

15 Staff Numbers and Costs

The average number of persons employed by the Company (excluding directors) during the year was as follows:

	1998	1997
Underwriting	19	20
Claims	8	7
Accounting	6	6
Administration	9	9
	42	42

The aggregate payroll costs in respect of these persons were as follows:

	1998 £	1997 £
Wages and salaries	751,843	704,398
Social security costs	61,518	57,365
Other pension costs	299,573	91,104
	1,112,934	852,867

16 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. Contributions to the scheme are charged to the profit and loss 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 Projected Unit Credit method. The most recent valuation was as at 1 January 1996. 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 8½ % per annum, that salary increases would average 6½ % 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 £1,571,700 and that the actuarial value of those assets represented 108% of the benefits that had accrued to members, based on salaries projected to normal retirement date or the date of earlier withdrawal.
The pension contribution for the period was £299,572 (1997 £91,104).
One director is accruing retirement benefits under this scheme.

17 **Transactions with Directors & Officers**

At 30 June 1998 the amounts outstanding in respect of transactions, arrangements and agreements with directors and officers of the Company were:

Directors:

Director	Loan Type	Security	Interest Paid	Maximum Balance during the year	Outstanding 30-6-98	Outstanding 30-6-97
			£	£	£	£
D.A.Blanks	House Purchase	Mortgage	420	7,000	7,000	-
(from 15.7.97)	Sundry	None	-	7,214	4,329	-

Officers:

	Number of officers	1998 £	1997 £
House purchase loans	1	40,000	(2) 47,000
Other loans	2	7,430	(3) 12,189

18 **Currency Exchange**

The rate of exchange used for converting Eire Punts was IR£1.1196.

19 **Financial Commitments**

	1998 £	1997 £
Authorised by the directors and contracted for:		
Capital expenditure	106,000	146,000
Computer software	35,000	106,000

20 **Significant Shareholding**

At 30 June 1998 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 Investments 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 1997 show capital and reserves of £91,720 following a profit for the year of £20,796. According to the company's management initial losses were due to start-up costs and it has traded profitably since, leading them to believe that net assets will be quickly restored to the value of the called-up share capital. There is no market in the company's shares which have been valued at cost in the accounts.

Report of the Auditors

To the members of the Methodist Insurance P.L.C.
We have audited the financial statements on pages 7 to 19.

Respective responsibility of directors and auditors

As described on page 6 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

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.

Our evaluation of the presentation of information in the financial statements has regard to the statutory requirement for insurance companies to maintain equalisation provisions. The nature of equalisation provisions, the amounts set aside at 30 June 1998, and the effect of the movement in these provisions 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 30 June 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditors
Manchester
22 September 1998