REGISTRATION NUMBER: 6369

METHODIST INSURANCE PLC

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REPORT AND ACCOUNTS 31 DECEMBER 2009

Methodist Insurance PLC

Report and Accounts 31 December 2009

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

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

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

Methodist Insurance PLC

Officers and Professional Advisers

Directors	C F Nock ACII *Chairman* A G Gibbs MA, FCA *Deputy Chairman* Revd L J Barnball A Bolton MA (Cantab), MBA C H Boothman FRICS, MACostE D M Crompton ACII Revd P H Davis BA J M Hamilton BSc (Econ), FIA M H Tripp BSc, ARCS, FIA D S Walton LLB
Company Secretary	Mrs R J Hall FCIS
General Manager	J M Coates ACII
Auditors	KPMG Audit Plc
Bankers	National Westminster Bank PLC Allied Irish Banks PLC
Registered Office	Beaufort House, Brunswick Road, Gloucester, GL1 1JZ
Head Office	4th Floor, Lincoln House, 1 Brazenonose Street, Manchester, M2 5FJ Tel 0161 833 9696 Fax 0161 833 1287
Company Registration Number	6369

Methodist Insurance PLC

Directors' Report

The directors present their annual report and financial statements for the year ended 31 December 2009

Chairman's review of business operations

Our company has produced good results this last year Whilst we may compare these financial numbers with the previous year we must not forget that our 2008 results were considerably influenced by the crisis that almost destroyed the stability of the financial world At the conclusion of 2009 we continued to maintain a strong capital base, over and above the FSA regulatory requirements

This year has been busy new premises, a conversion exercise for all policy records and a new management team to lead us to achieve our goals

Our general insurance income has progressed steadily with total written premium moving forward 4 3% on the previous year to £11,053,995 (2008 £10,590,820) This is predominantly from organic growth in each segment of our core business but does include major new business acquisitions from Methodist Homes for the Aged and Methodist International Centre 2010 will provide us with an opportunity to promote our recently developed Community and Charity Shield products

A complete change in the previous year's pattern of claims incidents has driven a favourable result in our claims experience Reduced numbers and costs are almost half the levels of 2008, however our policyholders in Cumbria were not able to escape the damage and destruction recorded in the November floods Our total liability approached £230,000 and included considerable damage and disruption to Kirby-in-Furness and Keswick churches In response to the Methodist Church Cumbria Appeal our company sent a gift of £5,000 to support those who were unable to recover from any insurer

The exposure to theft of metal claims appears to have abated for the moment, we recorded only 30% of 2008 levels at a cost of £190,000

The underwriting result from our insurance operations shows a welcome turn around from the previous year to record a profit of £324,178 (2008 £332,719 loss)

During this last year a considerable investment of time and money was allocated to carry out an extensive project to convert all our 13,000 policy records on to a new computer system This has taken twelve months to achieve but is now completed on time This will provide us with a safer more robust operational tool to speed our handling of customers' needs Many thanks must go to all those staff involved in such an exercise

In the summer we successfully moved our office location to Lincoln House Manchester We were privileged to welcome Revd David Gamble, President of the Methodist Conference, to perform the official opening

In today's climate any company must maintain close scrutiny of the costs of its operation This year we have achieved a 16 9% reduction on previous year in our gross expense ratio to premium, from 25 2% to 20 9%

In 2009 there was a positive return on investments of £2,580,139 (2008 a loss of £2,443,137) This profit is made up of income on investments and cash of £449,813, investment expenses of £49,487 and a profit on valuation of £2,179,813 (2008 a loss of £3,517,367) At the year end the company's financial investments were valued at £16,078,311 (2008 £13,649,257)

In 2009, UK interest rates were kept low throughout the year and monetary policy continued to be drastically eased These measures were adopted in response to the financial shocks in 2008, which involved the rescue by the UK Government of a number of UK Banks, and in a bid to avert or, at least, moderate economic recession

The availability of abundant and cheap money encouraged investment in real assets and a measure of confidence returned to equity markets worldwide after the falls of the previous year The UK equity market all-share index rose in value by 25%, while the UK gilt index fell by 5% These movements were the reverse of what had happened in 2008

Our investment policy had been to remain fully invested in equities, while retaining a prudent proportion of the portfolio in UK gilts, amply sufficient in itself to meet our capital adequacy requirements

In 2009 the total return on the company's fixed interest and index-linked stocks was 6 3%, well above the benchmark index total return of -1 2%, reflecting the relatively large holdings of long dated index linked stocks The company s equities produced a positive return of 35 6%, comfortably above the benchmark index total return of 30 1% This outperformance largely made up for the previous year's underperformance

Our company has therefore recorded an operating profit on ordinary activities before grants and tax of £2,909,317 (2008 £2,775,856 loss)

Methodist Insurance PLC

Directors' Report

The Board of Directors propose to maintain the current level of charitable grants to the Methodist Church and organisations at £550,000 (2008 £550,000)

We have maintained the Administration and Reinsurance Agreements with Ecclesiastical Insurance Office plc and continue to develop a close alignment between the two companies Towards the end of the year new management teams were appointed We wish Michael Angell, Business Relationships, and Julie Molloy, Insurance Operations, every success We also wish to acknowledge the considerable contribution from Paul Rowley

Our service to our customers remains paramount During the year an in-depth Customer Satisfaction Survey was conducted, the results of which have provided essential information on how our company is performing through the eyes of our policyholders An overview from the analysis of responses from both church (99%) and personal (96%) questionnaires rated our overall service as "good" or "very good"

We have had a challenging yet successful year and much credit must go to all the staff based in Manchester and Gloucester We welcomed two new directors, Anne Bolton and David Crompton whose wide ranging experience and expertise will bring added strength to our Board

This will be my final review as Chairman as I plan to retire at our next AGM in May It has been a great privilege to have served on this Board for the past thirteen years, I shall miss the friendship and support both staff and directors have always shown and shared with me

I am very pleased to advise that David Walton has indicated his willingness to serve as your Chairman supported by Andrew Gibbs as Deputy I have every confidence that our company will continue to serve our policyholders, the Methodist Church and the wider community with the highest levels of service which they have come to expect from Methodist Insurance

Christopher F Nock
Chairman on behalf of the Directors

Methodist Insurance PLC

Directors' Report

Principal activity
The principal activity of the company is the transaction of general insurance business

Methodist Insurance PLC is a public limited company incorporated and domiciled in the United Kingdom, authorised and regulated by the Financial Services Authority

Review of the business and future developments
A review of the performance and position of the company is given in the chairman's review of business operations at the beginning of this report along with the key performance indicators of the business The directors consider that the company is well placed to perform satisfactorily in the future

The principal risks and uncertainties, together with details of the financial risk management objectives and policies of the company are disclosed in notes 3 and 4 to the financial statements

The company reinsures all of its current business except for terrorism cover with Ecclesiastical Insurance Office plc, who also provide administrative services within a profit share arrangement As such its financial risks are ultimately borne by the Ecclesiastical group, which has considerable financial resources and, as a consequence, the directors believe the group is well placed to manage such risks in the foreseeable future, despite the current uncertain economic outlook The directors also consider they have provided adequately for risks not reinsured with Ecclesiastical Insurance Office plc and, as such, they continue to adopt the going concern basis in preparing the annual report and accounts

Results and dividends
There was a retained profit for the year of £2,478,943 (2008 £3,094,412 loss)

The directors recommend the payment of dividends on the amounts paid up on the company's ordinary shares, for the year ended 31 December 2009, absorbing the sum of £187 (2008 £187) This equates to a dividend of 1p per share (2008 1p per share)

Charitable and political grants
Charitable grants during the year amounted to £555,000 (2008 £550,000) The company did not make any contributions for political purposes (2008 £nil)

Directors
The directors of the company at the date of this report are stated on page 2

Mr C H Boothman, Mr J M Hamilton and Mr M H Tripp retire by rotation and, being eligible, offer themselves for re-election

Mr C F Nock will retire as Chairman and a director at the annual general meeting on 26 May 2010 The directors wish to convey their gratitude to him for his contribution to the board Mr D S Walton will succeed Mr Nock as Chairman with effect from the annual general meeting

Mrs A Bolton was appointed to the board on 20 March 2009 and Mr D M Crompton was appointed to the board on 19 November 2009 In accordance with the articles of association, they will retire at the forthcoming annual general meeting and, being eligible, offer themselves for election

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

Policy on 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 company has not adopted any particular external code Under the terms of a Joint Administration Agreement, referred to in note 27, most of the company's creditors are payable by Ecclesiastical Insurance Office plc The company had no trade creditor balance at 31 December 2009 (2008 £nil)

Methodist Insurance PLC

Directors' Report

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, International Accounting Standard 1 requires that directors

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the company's ability to continue as a going concern

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They 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

Auditor and the disclosure of information to auditors

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

In accordance with Section 489 of the Companies Act 2006, a resolution proposing that KPMG Audit PLC be re-appointed as auditors of the company will be put to the annual general meeting

By order of the board

R Hall

Mrs R J Hall
Secretary
17 March 2010

Methodist Insurance PLC

Independent Auditors' Report

Independent auditors' report to the members of Methodist Insurance PLC

We have audited the financial statements of Methodist Insurance PLC for the year ended 31 December 2009 set out on pages 8 to 35 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

This report is made solely to the company's members, as a body, in accordance with Chapter 3 Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' 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 explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/UKNP

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

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

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

Jonathan Holt (Senior Statutory Auditor)
for and on behalf of KPMG Audit PLC
Statutory Auditor
St James Square,
Manchester, M2 6DS
17 March 2010

Methodist Insurance PLC

Income Statement

for the year ended 31 December 2009

	Notes	2009	2008
Revenue		**£**	£
Gross written premiums	5	**11,053,995**	10 590,820
Outward reinsurance premiums	5	**(11,053,995)**	(10,590 820)
Net change in provision for unearned premiums	5	**-**	-
Net earned premiums	5	**-**	-
Commission income	6	**1,637,768**	173,386
Net investment return	7	**2,580,139**	(2,443 137)
Total revenue		**4,217,907**	(2,269 751)
Expenses			
Claims and change in insurance liabilities	8	**(2,924,051)**	(9 204,205)
Reinsurance recoveries	8	**1,896,806**	9,042 327
Commissions and other acquisition costs	9	**(147,783)**	(156 489)
Other operating and administrative expenses		**(133,562)**	(187,738)
Total operating expenses		**(1,308,590)**	(506,105)
Operating profit/(loss)	10	**2,909,317**	(2 775 856)
Charitable grants	13	**(555,000)**	(550,000)
Profit/(loss) before income tax		**2,354,317**	(3,325 856)
Income tax recoverable	14	**124,626**	231 444
Profit/(loss) attributable to equity holders	21	**2,478,943**	(3 094,412)

All of the amounts above are in respect of continuing operations

The notes on pages 13 to 35 form part of these financial statements

Methodist Insurance PLC

Statement of Comprehensive Income

for the year ended 31 December 2009

	2009	2008
	£	£
Actuarial losses relating to pension asset	**(119,000)**	(17 000)
Elimination of pension fund movement	**79,000**	(28,000)
Movement on deferred tax relating to pension asset	**11,200**	12,600
Net expense recognised directly in equity	**(28,800)**	(32 400)
Profit/(loss) for the year after income tax	**2,478,943**	(3 094 412)
Total comprehensive income for the year	**2,450,143**	(3 126,812)

Methodist Insurance PLC

Statement of Financial Position

at 31 December 2009

	Notes	2009	2008
Assets		**£**	£
Financial investments	17	**16,078,311**	13,649,257
Reinsurers' share of insurance contract provisions	22	**20,980,769**	23,677,750
Current tax recoverable		**9,905**	8,331
Other assets	18	**1,643,317**	1,288,295
Cash and cash equivalents	19	**4,181,701**	4,948,885
Total assets		**42,894,003**	43,572,518
Equity			
Share capital	20	**112,500**	112,500
Retained earnings	21	**13,315,388**	10,865,432
Total shareholders' equity		**13,427,888**	10,977,932
Liabilities			
Insurance contract provisions	22	**26,879,418**	28,697,181
Deferred tax liabilities	23	**377,191**	514,028
Other liabilities	24	**2,209,506**	3,383,377
Total liabilities		**29,466,115**	32,594,586
Total shareholders' equity and liabilities		**42,894,003**	43,572,518

The financial statements of Methodist Insurance PLC, company registration number 6369, on pages 8 to 35 were approved by the board of directors on 17 March 2010 and signed on their behalf by

C F Nock Chairman

Methodist Insurance PLC

Statement of Changes in Equity

for the year ended 31 December 2009

	2009	2008
	£	£
Opening shareholders' equity	**10,977,932**	14 104 931
Total comprehensive income for the year	**2,450,143**	(3 126 812)
Dividends payable	**(187)**	(187)
Closing shareholders' equity	**13,427,888**	10 977 932

Methodist Insurance PLC

Statement of Cash Flows

for the year ended 31 December 2009

	2009	2008
	£	£
Profits/(loss) before tax	**2,354,317**	(3 325,856)
Adjustments for		
Net fair value (gains)/losses on financial investments	**(2,179,813)**	3,517.367
Income from investments	**(542,836)**	(835,530)
Changes in operating assets and liabilities		
Net (decrease)/increase in insurance contract provisions	**(1,817,763)**	4 043,301
Net decrease/(increase) in reinsurers' share of contract provisions	**2,696,981**	(4,563,349)
Net (increase)/decrease in other assets	**(397,909)**	198 950
Net (decrease)/increase in other liabilities	**(1,173,871)**	772 637
Cash used by operations	**(1,060,894)**	(192,480)
Dividends received	**207,826**	296,594
Interest received	**337,897**	560,538
Income tax (paid)/received	**(2,585)**	58 062
Net cash (used by)/from operating activities	**(517,756)**	722 714
Cash flows from investing activities		
Sales of financial investments	**3,505,159**	6 471 979
Purchases of financial investments	**(3,754,400)**	(7 424,875)
Net cash used by investing activities	**(249,241)**	(952 896)
Cash flows from financing activities		
Dividends paid to company's shareholders	**(187)**	(187)
Net cash used by financing activities	**(187)**	(187)
Net decrease in cash and cash equivalents	**(767,184)**	(230 369)
Cash and cash equivalents at beginning of year	**4,948,885**	5 179,254
Cash and cash equivalents at end of year	**4,181,701**	4,948 885

Notes to the Financial Statements

1 Accounting policies

The principal accounting policies adopted in preparing the company's International Financial Reporting Standards (IFRS) financial statements are set out below

Basis of preparation

The company has elected to prepare its financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and endorsed by the European Commission ('EC') The financial statements have been prepared on the historical cost basis, except for the revaluation of financial assets designated at fair value through the income statement

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

In the current year the company has adopted IAS 1 (revised), *Presentation of Financial Statements* The revised IAS 1 renames the primary financial statements and requires the inclusion of a statement of changes in equity as a primary statement Amendments to IFRS 7, *Financial Instruments Disclosures*, also became effective during the year, resulting in the requirement to classify fair value measurements using a fair value hierarchy to reflect the significance of the measurement inputs IFRS 8, *Operating Segments*, IAS 23 (revised), *Borrowing Costs*, IFRIC Interpretation 13, *Customer Loyalty Programmes*, IFRIC Interpretation 15, *Agreements for the Construction of Real Estate*, IFRIC Interpretation 16, *Hedges of a Net Investment in a Foreign Operation* and IFRIC Interpretation 18, *Transfers of Assets from Customers* all became effective during the year The company has no transactions within the scope of these standards and interpretations, and there is no impact on the company's results

The company has not adopted early IAS 27 (revised), *Consolidated and Separate Financial Statements*, IFRS 3 (revised), *Business Combinations* (both effective from accounting periods beginning on or after 1 July 2009), IAS 24 (revised), *Related Party Disclosures* (effective 1 January 2011) or IFRS 9 *Financial Instruments* (effective 1 January 2013) IAS 27 (revised) and IFRS 3 (revised) are not applicable to the company's operations IFRS 9 establishes principles for the financial reporting of financial assets, simplifying the existing IAS 39 classifications and measurement methods, and IAS 24 (revised) amends the definition of a related party Neither standard is expected to significantly impact the company In addition, IFRS 1 (revised), *First-time Adoption of International Financial Reporting Standards* has been issued but is not effective for 2009 year ends and is not applicable to the company

Amendments to existing standards (Amendments to IFRS 5, IAS 32, IAS 39) have been issued but are not effective for 2009 year ends and have not been adopted early by the company In addition, an amendment to IFRIC Interpretation 16, *Hedges of a Net Investment in a Foreign Operation*, IFRIC Interpretation 17, *Distributions of Non-cash Assets to Owners* and IFRIC Interpretation 19, *Extinguishing Financial Liabilities with Equity Instruments* have been issued but are not effective for 2009 year ends These amendments and interpretations are not expected to impact on the company's results

Use of estimates

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates

Foreign currency translation

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions Exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement

Product classification

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

1 Accounting policies (continued)

Premium income

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

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

Fee and commission income

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

Net investment return

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

Realised gains or losses represent the difference between the net sales proceeds and purchase price or, if previously valued, the valuation at the last balance sheet date 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

Claims

General insurance claims incurred include all losses occurring during the year, whether reported or not, related handling costs, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years

Insurance contract liabilities

(i) Outstanding claims provisions

General insurance outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, the ultimate cost of which cannot be known with certainty at the balance sheet date Any estimate represents a determination within a range of possible outcomes Claims provisions are not discounted

(ii) Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as a provision for unearned premiums The change in this provision is taken to the income statement in order that revenue is recognised over the period of risk

(iii) Liability adequacy

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

Notes to the Financial Statements

1 Accounting policies (continued)

Reinsurance

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

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

Financial instruments

IAS 39 requires the classification of certain financial assets and liabilities into separate categories for which the accounting requirement is different

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

- Financial instruments designated as at fair value through the income statement and available-for-sale financial assets are subsequently carried at fair value Changes in the fair value of available-for-sale financial assets are taken to equity, all other changes in fair value are included in the income statement in the period in which they arise

- All other financial assets and liabilities are held at amortised cost using the effective interest method

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

Financial investments

The company classifies its quoted investments as financial assets designated at fair value through the income statement, as these investments are managed, and their performance evaluated, on a fair value basis Investments that do not have a quoted market price in an active market and whose value cannot be reliably measured, are classified as available-for-sale financial assets

Purchases and sales of investments are recognised on the trade date, which is the date that the company commits to purchase or sell the assets, at their fair value adjusted for transaction costs Investments classified at fair value through the income statement are subsequently carried at fair value, with changes in fair value included in the income statement in the period in which they arise

The fair values of investments are based on quoted bid prices Investments for which fair values cannot be measured reliably are recognised at cost less impairment

Offset of financial assets and financial liabilities

Financial assets and liabilities are offset, and the net amount reported in the balance sheet, when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously

Receivables arising from insurance and reinsurance contracts

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

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

Cash and cash equivalents

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

1 Accounting policies (continued)

Provisions and contingent liabilities

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

The company recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract

Contingent liabilities are disclosed if the future obligation is probable but the amount cannot be reliably estimated

Employee benefits

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

Income tax

Income tax comprises current and deferred tax Income tax is recognised in the income statement except to the extent that it relates to items taken directly to equity, in which case it is recognised in equity

Current tax is the expected tax payable on the taxable profit for the period and any adjustment to the tax payable in respect of previous periods

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

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

Deferred tax assets and liabilities are not discounted

Appropriations

Dividends

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

2 Critical accounting estimates, and judgements in applying accounting policies

The company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year Estimates and judgements are regularly reviewed and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances

(a) The ultimate liability arising from claims made under general business insurance contracts

The estimation of the ultimate liability arising from claims made under general business insurance contracts is a critical accounting estimate The amount that the company will ultimately pay with respect to such contracts is uncertain and will vary with the total number of claims made on each class of business, the amounts that claims settle for and the timings of payments

The uncertainties surrounding the estimates of claims payments for the various classes of business are discussed further in note 3

2 Critical accounting estimates, and judgements in applying accounting policies (continued)

(b) Pension benefits

The cost of these benefits and the present value of the pension benefit liabilities depend on factors that are determined on an actuarial basis using a number of assumptions The assumptions used in determining the charge in the income statement for these benefits include the expected long term rate of return on the relevant plan assets and the discount rate Any changes in these assumptions will impact the income statement charge and may affect planned funding of the pension plans The expected return on plan assets assumption is determined by considering long term historical returns, asset allocation and future estimates of long term investment returns The company determines an appropriate discount rate at the end of each year to be used to determine the present value of estimated future cash outflows expected to be required to settle the pension benefit obligations

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

3 Insurance risk

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

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

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

General business risks

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

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

Frequency and severity of claims

Property classes

For property insurance contracts the number of claims made can be affected by weather events, changes in climate and crime rates Individual claims can vary in amount since the property insured is diverse in both size and nature The cost of repairing property varies according to the extent of damage, cost of materials and labour charges

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

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

3 Insurance risk (continued)

Frequency and severity of claims (continued)

Liability classes

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

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

Concentrations of risk

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

		Type of risk			
		Property	**Liability**	**Accident**	**Total**
		£	**£**	**£**	**£**
2009					
United Kingdom	Gross	**8,930,945**	**1,210,741**	**262,520**	**10,404,206**
	Net	-	-	-	-
Eire	Gross	**478,893**	**160,783**	**10,113**	**649,789**
	Net	-	-	-	-
Total	Gross	**9,409,838**	**1,371,524**	**272,633**	**11,053,995**
	Net	-	-	-	-
2008					
United Kingdom	Gross	8,560 579	1,214 557	233,845	10,008,981
	Net	-	-	-	-
Eire	Gross	427 322	146 369	8 148	581,839
	Net	-	-	-	-
Total	Gross	8 987 901	1,360 926	241,993	10,590 820
	Net	-	-	-	-

Sources of uncertainty in the estimation of future claim payments

Property classes

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

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

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

3 Insurance risk (continued)

Sources of uncertainty in the estimation of future claim payments (continued)

Liability classes

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

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

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

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

Note 22 presents the development of the estimate of ultimate claim cost for public and employers' liability claims occurring in a given year This gives an indication of the accuracy of the estimation technique for incurred claims

Sources of uncertainty

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

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

Prudence in the provisions for outstanding claims

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

Special provisions for latent claims

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

4 Financial risk and capital management

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

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

Categories of financial instruments

	Financial assets			Financial	Non-financial	
	Designated at fair value	Available-for-sale	Loans and receivables	liabilities at amortised cost	assets and liabilities	Total
As at 31 December 2009	**£**	**£**	**£**	**£**	**£**	**£**
Financial Investments	**16,053,311**	**25,000**	-	-	-	**16,078,311**
Other assets	-	-	**1,440,596**	-	**202,721**	**1,643,317**
Cash and cash equivalents	-	-	**4,181,701**	-	-	**4,181,701**
Other liabilities	-	-	-	**(2,047,636)**	**(161,870)**	**(2,209,506)**
Total	**16,053,311**	**25,000**	**5,622,297**	**(2,047,636)**	**40,851**	**19,693,823**
Net other liabilities						**(6,265,935)**
Net asset						**13,427,888**
As at 31 December 2008	£	£	£	£	£	£
Financial Investments	13,624 257	25,000	-	-	-	13 649 257
Other assets	-	-	1,234 170	-	54,125	1 288,295
Cash and cash equivalents	-	-	4 948,885	-	-	4 948 885
Other liabilities	-	-	-	(3,216,764)	(166,613)	(3 383 377)
Total	13,624 257	25 000	6 183 055	(3 216 764)	(112 488)	16,503 060
Net other liabilities						(5,525 128)
Net asset						10 977,932

Fair value hierarchy

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

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

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

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

All financial investments held by the company and designated at fair value are clasified as level 1 All available for sale financial instruments are classified as level 3, no transactions of these holdings have occurred in the financial period and no gains or losses relating to them are included in income

4 Financial risk and capital management (continued)

(a) Interest rate risk

The table below summarises the maturity dates at the balance sheet date for those financial assets that are exposed to interest rate risk

	Maturing within Less than 1 year £	1-5 years £	More than 5 years £	Total £
As at 31 December 2009				
Debt securities	-	2,058,032	5,737,368	7,795,400
Other assets including insurance receivables	473,446	-	-	473,446
Cash and cash equivalents	4,181,701	-	-	4,181,701
	4,655,147	2,058,032	5,737,368	12,450,547
As at 31 December 2008				
Debt securities	-	3,534 267	4,306 541	7,840 808
Other assets including insurance receivables	340 810	-	-	340 810
Cash and cash equivalents	4 948 885	-	-	4,948 885
	5 289,695	3,534,267	4,306 541	13,130 503

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

(b) Credit risk

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

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

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

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

The company's credit risk policy details prescriptive methods for the collection of premiums and control of intermediary and policyholder debtor balances The level and age of debtor balances are regularly assessed via monthly credit management reports These reports are scrutinised to assess exposure in respect of aged or outstanding balances These accounts are primarily brokers, which are in turn monitored via credit reference agencies and considered to pose minimal risk of default

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

4 Financial risk and capital management (continued)

(b) Credit risk (continued)

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

(c) Liquidity risk

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

Financial liabilities of the company all mature within one year An estimate of the timing of the net cash outflows resulting from insurance contracts is provided in note 22

(d) Currency risk

The company operates in the UK and The Republic of Ireland Its exposure to foreign exchange risk arises primarily from recognised assets and liabilities denominated in euros

The company's exposure to foreign currency risk within the investment portfolios arises from purchased investments that are denominated in currencies other than sterling

The company's primary currency risks are all designated in Euros The total carrying amount of those assets is €2,376,951 (2008 €3,023,429), liabilities total €1,389,475 (2008 €1,882,677)

(e) Equity price risk

The company is exposed to equity securities price risk to its investments which are classified at fair value through the income statement

Further details of the value of each type of investment that is exposed to equity price risk is included in note 17 to the financial statements

(f) Market risk sensitivity analysis

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

		Potential increase/ (decrease) in profit after tax	
Variable	**Change in variable**	**2009**	2008
		£	£
Interest rate risk	-100 basis points	**424,478**	402,478
	+100 basis points	**(383,694)**	(362 385)
Currency risk	-10 0%	**(63,170)**	(79 403)
	10 0%	**63,170**	79,403
Equity price risk	-10 0%	**(595,920)**	(417 758)
	10 0%	**595,920**	417 758

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

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

- the value of fixed income investments will vary inversely with changes in interest rates
- currency gains and losses will arise from a change in the value of sterling against all other currencies moving in concert
- change in profit is stated net of tax at the standard rate of 28% (2008 28%)

4 Financial risk and capital management (continued)

(g) Capital management

The company's objectives when managing capital are

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

The company is subject to insurance solvency regulations, and capital is managed and evaluated on the basis of regulatory capital

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

At 31 December 2009, capital resources available to meet FSA requirements totaled £13,393,000 (2008 £10,946,000) The company has complied with all externally imposed capital requirements throughout the year

5 Net insurance premium revenue

	2009	2008
	£	£
Gross written premiums	**11,053,995**	10 590 820
Change in the gross provision for unearned premiums	**(178,126)**	(392,341)
Gross earned premiums	**10,875,869**	10,198 479
Outward reinsurance premiums	**(11,053,995)**	(10 590,820)
Change in the provision for unearned premiums, reinsurers' share	**178,126**	392 341
Reinsurers' share of unearned premiums	**(10,875,869)**	(10 198 179)
Net written premiums	**-**	-
Net earned premiums	**-**	-

6 Commission income

	2009	2008
	£	£
Reinsurance commissions and profit commission	**1,609,526**	160 294
Other commissions	**28,242**	13 092
	1,637,768	173 386

Methodist Insurance PLC

Notes to the Financial Statements

7 Net investment return

	2009	2008
Investments at fair value through the income statement	**£**	£
- dividend income	**200,191**	298.836
- interest income	**270,625**	298 097
Other investments		
- cash and cash equivalents income	**(77,660)**	469,662
- other income received	**56,657**	42 340
Investment income	**449,813**	1,108 935
Fair value gains/(losses) on investments at fair value through the income statement	**2,179,813**	(3 517,367)
Investment expenses	**(49,487)**	(34 705)
Net investment return	**2,580,139**	(2 443 137)

Included within cash and cash equivalents income are exchange losses of £93,023 (2008 £273,405 gains)

8 Claims and change in insurance liabilities and reinsurance recoveries

	2009	2008
	£	£
Gross claims paid	**4,919,940**	5 649 090
Gross change in the provision for claims	**(1,995,889)**	3 555,115
Claims and change in insurance liabilities	**2,924,051**	9 204,205
Reinsurers' share of claims paid	**(4,771,913)**	(4 961,333)
Reinsurers' share of change in the provision for claims	**2,875,107**	(4,080 994)
Reinsurance recoveries	**(1,896,806)**	(9,042 327)
Claims and change in insurance liabilities, net of reinsurance	**1,027,245**	161 878

9 Commissions and other acquisition costs

	2009	2008
	£	£
Commission paid	**147,783**	156 489

10 Operating profit/(loss)

	2009	2008
Operating profit/(loss) has been arrived at after charging/(crediting)	**£**	£
Net foreign exchange losses/(gains)	**93,023**	(273,405)
Directors' emoluments	**53,568**	50 949

11 Auditors' remuneration

	2009	2008
	£	£
Fees payable to the company's auditors for the audit of the company's accounts	**40,053**	38 200
Other services pursuant to legislation	**5,650**	5,650
Fees payable to the company's auditors for the audit of the pension scheme	**3,090**	3,090

Other services pursuant to legislation represents FSA audit work

Methodist Insurance PLC

Notes to the Financial Statements

12 Employee information

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

13 Charitable grants

	2009	2008
	£	£
Charitable grants to Methodist funds and organisations	**550,000**	550 000
Charitable grants to other organisations	**5,000**	-
	555,000	550 000

14 Income tax

	2009	2008
	£	£
UK corporation tax for the current financial year	**243**	-
Adjustment in respect of prior periods	**768**	-
Total current tax charge	**1,011**	-
Deferred taxation relating to the pension scheme	**11,200**	12 600
Other deferred taxation charges	**(136,837)**	(244,044)
Income tax recoverable	**(124,626)**	(231 444)

Tax on the company's profit before tax differs from the United Kingdom standard rate of corporation tax of 28% (2008 28 5%) for the reasons set out in the following reconciliation

	2009	2008
	£	£
Profit/(loss) before tax	**2,354,317**	(3,325 856)
Tax calculated at the UK standard rate of 28% (2008 28 5%)	**659,209**	(947 869)
Factors affecting charge for the period		
Non-taxable franked investment income	**(78,903)**	(95 493)
Unrealised gains on investments crystallising	-	1,608
Expenses not deductible for tax purposes	**85,983**	4 242
Deferred tax asset not provided on tax loss	-	806 068
Unutilised tax losses	**(791,926)**	-
Other items	**243**	-
Adjustments to tax charge in respect of prior periods	**768**	-
Income tax recoverable	**(124,626)**	(231,444)

The UK standard rate of corporation tax changed to 28% from 30% with effect from 1 April 2008, resulting in current tax being provided for at the blended standard rate of 28 5% for the prior year

15 Appropriations

	2009	2008
Amounts recognised as distributions to equity holders in the period	**£**	£
Dividends	**187**	187

This equates to a dividend of 1p per share (2008 1p)

16 Pension asset

The company operates a defined benefit pension scheme providing benefits based on final pensionable salary The assets of the scheme are held separately from those of the company, being invested with an insurance company under a Group Funding policy The contributions are determined, on the basis of triennial valuations, by an independent qualified actuary The scheme has been closed to new entrants since 1 July 1998 As the scheme is closed, the current service cost will increase as the members of the scheme approach retirement The most recent triennial valuation was carried out as at 1 January 2008 using the Projected Unit Method The triennial valuation is reviewed annually

The assumptions which have the greatest effect on the valuation results are those related to the rate of return on investments and the rates of increase in salaries and pensions It was assumed that the investment returns would be 4 5% per annum, and that present and future pensions would increase by 4% per annum The valuation is further impacted, as liabilites are discharged by the purchase of annuities on the commencement of members' pensions The most recently reviewed actuarial valuation showed that the notional value of the scheme's assets was £3,087,000, representing 146% of the benefits accrued to members Pension obligations are unchanged in the year, and the surplus in the scheme has decreased by £79,000 from £1,050,000 to £971,000

The full actuarial valuation for the defined benefit pension scheme has been reviewed and updated by a qualified independent actuary at 31 December 2009 The financial assumptions used were as follows

	2009	2008
Inflation	**3.7%**	3 1%
Increase in salary	**n/a**	n/a
Increase in pensions - in payment	**4 0%**	4 0%
Increase in pensions - deferred pensions	**3.7%**	3 1%
Expected return on plan assets - Deferred members	**4 5%**	4 8%
Expected return on plan assets - Insured pensioners	**5 7%**	6 7%
Discount rate for scheme liabilities	**5 7%**	6 7%

The expected rate of return is based on market expectation at the beginning of the period for returns over the life of the benefit obligation

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

The amounts recognised in the scheme are as follows	2009	2008
	£	£
Present value of funded obligations	**(2,116,000)**	(1 861,000)
Fair value of scheme assets	**3,087,000**	2 911 000
Surplus in the scheme	**971,000**	1,050 000
Restriction to net asset due to recoverability	**(971,000)**	(1 050 000)
Net asset in the balance sheet	-	-

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

	2009	2008
	£	£
Bonds	**1,384,000**	1,344 000
Insured pensioners	**1,703,000**	1 567 000
Total scheme assets	**3,087,000**	2 911,000

16 Pension asset (continued)

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

	2009	2008
	£	£
Analysis of amounts charged to income statement		
Current service cost	**(6,000)**	(6 000)
Expected return on scheme assets	**164,000**	65,000
Interest cost on scheme liabilities	**(124,000)**	(20 000)
Contributions paid by Ecclesiastical	**6,000**	6 000
Total included within income statement	**40,000**	45 000
Analysis of amounts included in the statement of comprehensive income		
Difference between actual and expected return on scheme assets	**12,000**	(84 000)
Effects of changes in assumptions underlying the present value of scheme liabilities	**(226,000)**	68 000
Experience gains/(losses) arising on scheme liabilities	**95,000**	(1 000)
Total actuarial losses	**(119,000)**	(17,000)
Elimination of pension movement	**79,000**	(28 000)

The actual return on scheme assets was a £176,000 gain (2008 £19,000 loss)

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

	2009	2008
Scheme assets	£	£
As at 1 January	**2,911,000**	1,363 000
Pension benefits paid and payable	**(6,000)**	(6 000)
Contributions paid	**6,000**	6 000
Expected return on scheme assets	**164,000**	65,000
Actuarial gains/(losses)	**12,000**	(84 000)
Previously unrecognised assets relating to insured pensioners	**-**	1 567,000
As at 31 December	**3,087,000**	2 911,000
Defined benefit obligation		
As at 1 January	**1,861,000**	341 000
Current service cost	**6,000**	6 000
Pension benefits paid and payable	**(6,000)**	(6,000)
Interest cost	**124,000**	20 000
Actuarial losses/(gains)	**131,000**	(67 000)
Previously unrecognised obligation relating to insured pensioners	**-**	1 567,000
As at 31 December	**2,116,000**	1,861 000

The surplus in the scheme has not been recognised in the balance sheet for the reason stated above

The movement in the balance sheet asset is as follows		
As at 1 January	**-**	-
Current service cost	**(6,000)**	(6 000)
Contributions paid	**6,000**	6 000
Expected returns on scheme assets	**164,000**	65,000
Interest cost	**(124,000)**	(20 000)
Actuarial losses	**(119,000)**	(17 000)
Elimination of pension movement	**79,000**	(28,000)
As at 31 December	**-**	-

16 Pension asset (continued)

History of experience gains and losses	2009	2008	2007	2006	2005
	£	£	£	£	£
Fair value of scheme assets	**3,087,000**	2 911 000	1,363 000	1 665 000	1 660 000
Present value of defined benefit obligations	**(2,116,000)**	(1,861,000)	(341,000)	(862,000)	(1 240 000)
Surplus	**971,000**	1 050 000	1,022 000	803,000	420,000
Experience adjustments on scheme liabilities	**95,000**	(1 000)	149,000	145 000	12 000
Experience adjustments on scheme assets	**12,000**	(84 000)	(29 000)	210 000	480,000

The cumulative amount of actuarial gains recognised in the statement of comprehensive income since 1 January 2003 (the date from which actuarial gains/losses were recorded), is £nil (2008 £nil)

The contribution expected to be paid during the year ended 31 December 2009 is £nil

17 Financial investments

	2009	2008
Financial investments at fair value through the income statement	**£**	£
Equity securities		
- listed	**8,276,661**	5 802,199
Debt securities		
- government bonds	**6,754,726**	6,511 666
- listed	**1,021,924**	1 310,392
Financial investments available for sale		
Equity securities		
- unlisted	**6,250**	6 250
Debt securities		
- unlisted	**18,750**	18 750
Total financial investments	**16,078,311**	13,649 257

All financial investments are current

18 Other assets

	2009	2008
Receivables arising from insurance and reinsurance contracts	**£**	£
- due from contract holders	**1,033,203**	764 613
- due from agents, brokers and intermediaries	**259,536**	341,033
- due from reinsurers	**22,220**	-
Other receivables		
- accrued interest	**101,503**	96 755
- other prepayments and accrued income	**226,855**	85,894
	1,643,317	1,288 295

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

The company has recognised an expense of £nil (2008 £nil) in other operating and administrative expenses in the income statement for the impairment of its receivables during the year At 31 December 2009, £88,631 (2008 £104,550) of receivables were past due and not impaired

Notes to the Financial Statements

19 Cash and cash equivalents

	2009	2008
	£	£
Cash at bank and in hand	**988,631**	483,520
Short term bank deposits	**3,193,070**	4 465,365
	4,181,701	4,948 885

The above carrying amounts are a reasonable approximation of fair value

20 Called up share capital

	2009	2008
Called up, allotted and fully paid	**£**	£
18,750 shares of £6, each fully paid	**112,500**	112 500

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

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

21 Retained earnings

	2009	2008
	£	£
Balance at 1 January	**10,865,432**	13,992 431
Profit/(loss) for the period	**2,478,943**	(3,091 412)
Elimination of pension costs/(net losses relating to pension fund)	**(28,800)**	(32 400)
Dividends	**(187)**	(187)
Balance at 31 December	**13,315,388**	10,865 432

22 Insurance liabilities and reinsurance assets
Claims outstanding

	2009	2008
Gross	**£**	£
Claims outstanding	**20,260,854**	22,256.743
Unearned premiums	**6,618,564**	6 440,438
Total gross insurance liabilities	**26,879,418**	28 697,181
Recoverable from reinsurers		
Claims outstanding	**14,362,205**	17,237 312
Unearned premiums	**6,618,564**	6 440 438
Total reinsurers' share of insurance liabilities	**20,980,769**	23 677,750
Net		
Claims outstanding	**5,898,649**	5 019 431
Unearned premiums	**-**	-
Total net insurance liabilities	**5,898,649**	5,019,431
Gross insurance liabilities		
Current	**9,774,967**	12 024 248
Non-current	**17,104,451**	16 672,933
	26,879,418	28,697 181
Reinsurance assets		
Current	**9,774,967**	12 024 248
Non-current	**11,205,802**	11 653,502
	20,980,769	23,677 750

22 Insurance liabilities and reinsurance assets (continued)

General business insurance contracts

(i) Reserving methodology

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

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

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

(ii) Calculation of prudence and uncertainty margins

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

(iii) Calculation of special provisions for latent claims

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

(iv) Assumptions

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

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

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

Of the total claims provision £8,918,135 (2008 £9,510,113) gross and £3,789,880 (2008 £2,810,451) net after assumed reinsurance recoveries relate to this matter

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

22 Insurance liabilities and reinsurance assets (continued)

(v) Change in assumptions

The reserves for latent claims have been reviewed to reflect the sources of uncertainty referred to earlier in the notes

(vi) Sensitivity of results

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

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

	2009		2008	
	Gross	Net	Gross	Net
	£000	£000	£000	£000
Liability	1,492	532	1 521	439
Property	475	-	642	-

(vii) Claims development tables

The nature of insurance business is that claims may take a number of years to settle and before the final liability is known The following table shows the development of the estimate of ultimate gross claims cost for these classes across all territories Due to the reinsurance arrangements in place, no meaningful net claims development can be provided

	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Estimate of ultimate claims										
At end of year	2,243	7,608	6,874	3,531	3,980	4,548	7,439	7,441	4,756	
One year later	2,488	7,922	6,596	3,280	3,304	4,225	6,734	6,327		
Two years later	2,441	8,179	5,230	3,093	3,010	4,307	6,461			
Three years later	2,510	8,659	4,936	2,884	3,075	4,277				
Four years later	2,316	8,635	4,847	2,881	3,173					
Five years later	2,287	8,789	4,887	2,841						
Six years later	2,345	8,804	4,834							
Seven years later	2,345	8,815								
Eight years later	2,348									
Current estimate of ultimate claims	2,348	8,815	4,834	2,841	3,173	4,277	6,461	6,327	4,756	43,832
Cumulative payments to date	(2,273)	(8,733)	(4,595)	(2 775)	(2,645)	(3,608)	(5,327)	(3,520)	(1,599)	(35,075)
Outstanding liability	75	82	239	66	528	669	1 134	2,807	3,157	8,757

Liability in respect of earlier years	10,915
Internal claims handling reserve	589
Total liability included in insurance liabilities in the balance sheet	20,261

Methodist Insurance PLC

Notes to the Financial Statements

22 Insurance liabilities and reinsurance assets (continued)

(viii) Movements in insurance liabilities and reinsurance assets

	Gross £	Reinsurance £	Net £
Claims outstanding			
At 1 January 2009	22,256,743	(17,237,312)	5,019,431
Cash (paid)/received for prior year claims settled in the year	(3,320,772)	3,172,745	(148,027)
Change in prior year liabilities/reinsurance assets	(1,831,520)	2,858,765	1,027,245
Prior year liabilities/(reinsurance assets) at 31 December 2009	17,104,451	(11,205,802)	5,898,649
Current year claims/(recoveries)	4,755,571	(4,755,571)	-
Cash (paid)/received for prior year claims settled in the year	(1,599,168)	1,599,168	-
Current year liabilities/(reinsurance assets) at 31 December 2009	3,156,403	(3,156,403)	-
At 31 December 2009	20,260,854	(14,362,205)	5,898,649
Provision for unearned premiums			
At 1 January 2009	6,440,438	(6,440,438)	-
Movement in the year	178,126	(178,126)	-
At 31 December 2009	6,618,564	(6,618,564)	-
Claims outstanding			
At 1 January 2008	18 605 642	(13 066 163)	5 539 479
Exchange differences	95 986	(90,155)	5 831
Cash (paid)/received for prior year claims settled in the year	(3 792 375)	3 104 618	(687 757)
Change in prior year liabilities/reinsurance assets	1 763,680	(1 601 802)	161 878
Prior year liabilities/(reinsurance assets) at 31 December 2008	16,672 933	(11 653,502)	5 019,431
Current year claims/(recoveries)	7,440 525	(7 440 525)	-
Cash (paid)/received for current year claims settled in the year	(1 856 715)	1 856 715	-
Current year liabilities/(reinsurance assets) at 31 December 2008	5 583 810	(5 583,810)	-
At 31 December 2008	22.256 743	(17,237 312)	5 019 431
Provision for unearned premiums			
At 1 January 2008	6 048 238	(6,048 238)	-
Exchange differences	(141)	141	
Movement in the year	392 341	(392,341)	-
At 31 December 2008	6,440 438	(6,440 438)	-

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

23 Deferred tax

An analysis and reconciliation of the movement of the key components of the net deferred tax liability during the current and prior reporting period is as follows

	Net retirement benefit assets	Unrealised investment gains	Capital allowances in excess of depreciation	Expenses not deductible	Total
	£	£	£	£	£
At 1 January 2008	-	779 233	(21 161)	-	758 072
Charge/(credit) to income	12,600	(90 044)	-	(154 000)	(231,444)
Credit to equity	(12,600)	-	-	-	(12 600)
At 31 December 2008	-	689 189	(21,161)	(154,000)	514 028
Charge/(credit) to income	**11,200**	**(136,837)**	-	-	**(125,637)**
Credit to equity	**(11,200)**	-	-	-	**(11,200)**
At 31 December 2009	-	**552,352**	**(21,161)**	**(154,000)**	**377,191**

24 Other liabilities

	2009	2008
	£	£
Creditors arising out of direct insurance operations	**1,311**	32 823
Creditors arising out of reinsurance operations	**1,392,807**	2 507 759
Other creditors	**209,905**	229,339
Accruals	**605,483**	613 456
	2,209,506	3,383 377

Other liabilities are all current, and the above carrying amounts are a reasonable approximation of fair value

25 Capital commitments

At 31 December 2009 there were £nil (2008 £nil) outstanding contracts for capital expenditure

Notes to the Financial Statements

26 Significant shareholding

At 31 December 2009 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 The holding has not been treated as an associate company with respect to IAS 28 'Investments in Associates', because the company does not exert a significant influence over the operating and financial policy of Epworth Investment Management Limited

Details of the Epworth Investment Management Limited

Class of shares held	Country of incorporation	Percentage of shares held
Ordinary shares	England	25%
9% Non-voting redeemable preference shares	England	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 2009 show capital and reserves of £236,349 (2008 £226,966) following a profit for the year of £19 383 (2008 £22,799) There is no market in the company's shares and they have, therefore, been valued at cost in the accounts

27 Related party transactions

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

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

The company ceded premiums net of claims paid and commissions to the value of £6 168,956 (2008 £5,131,113) during the year to Ecclesiastical Insurance Office plc, which also bore expenses of the company's business of £2,518,156 (2008 £3,029,491) The reinsurer's share of technical provisions due from Ecclesiastical Insurance Office plc as at 31 December 2009 is £2,438,037 (2008 £3,906,180) which consists of £6,540,913 (2008 £6,376,469) of unearned premium less £8,978,950 (2008 £10,282,649) of outstanding claims At 31 December 2009 £1,377,071 (2008 £2,496,976) was due to Ecclesiastical Insurance Office plc Information about key management personnel compensation is provided in note 10 to the financial statements

Transactions and services with related parties are made on commercial terms Amounts outstanding are unsecured, are not subject to guarantees, and will be settled in cash No provisions have been made in respect of these balances