

REGISTRATION NUMBER: 6369

METHODIST INSURANCE PLC

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REPORT AND ACCOUNTS 31 DECEMBER 2010

Methodist Insurance PLC

Report and Accounts 31 December 2010

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

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

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

Methodist Insurance PLC

Officers and Professional Advisers

Directors

D S Walton DL, LLB *Chairman*
A G Gibbs MA, FCA *Deputy Chairman*
Revd L J Barriball
A Bolton MA, 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

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
Ulster Bank Ireland Limited

Registered Office

Beaufort House,
Brunswick Road,
Gloucester, GL1 1JZ

Head Office

4th Floor, Lincoln House,
1 Brazennose 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 2010

Chairman's review of business operations

This has been a year of change and challenge

At the outset of this Report I want to pay a tribute to my predecessor as Chairman, Chris Nock. He led the company with great commitment and graciousness for 7 years and had been a board member for 13 years. We were able to wish him a well deserved and happy retirement at the Annual General Meeting in May 2010.

The underwriting result for the year has been encouraging at £450,583 (2009 £329,178), despite a reduction in Gross Written Premiums to £10,771,022 (2009 £11,053,995). A number of factors have contributed, not least a soft market and an increase in the number of church closures. Theft of metal claims have shown another upsurge at 229 – up by 110 from the previous year and resulting in pay-outs totalling £303,651 (2009 £183,948). Churches continue to be encouraged to make SmartWater treatment a deterrent.

In 2010 the company has benefitted from a net investment return of £2,436,295 (2009 £2,580,139). This return is made up of income on investments and cash of £476,713 (2009 £449,813) and fair value gains on investments of £2,023,227 (2009 £2,179,813) less investment expenses of £63,645 (2009 £49,487). At the year end the company's financial investments are valued at £18,841,276 (2009 £16,078,311).

The consequences of the 2008 US and European banking crisis persisted in the UK throughout 2010. Recession and official policy have kept interest rates low and there has been continued support through 'quantitative easing', while inflation has begun to increase from historically low levels, as import costs rise because of continuing rapid economic growth in China and other emerging economies.

Abundant money has been available for investment in both bonds and equities and there has been increasing confidence in a return to economic growth in the developed economies, with the consequence that the UK gilt index has risen in value by 3% and the UK equity market index by 11%.

We continue our policy of holding an amount in UK government bonds which is amply sufficient in itself to meet our capital adequacy requirements. This makes up 42% of total financial investments. Of the rest, 6% is held in corporate bonds (listed debt securities) and 52% in listed equity securities. These ratios are unchanged from the prior year.

In 2010 the total return on the company's UK government bonds of 7.8% is comfortably above the benchmark index total return of 7.2%. The company's corporate bonds have returned 11.6% while our equities have returned 23.2%, substantially higher than the benchmark index total return of 14.5%. This outperformance is largely due to good UK equity stock selection and a generally positive contribution from our overseas and other specialist collective funds.

The company results show an operating profit before grants and tax of £2,886,878 (2009 £2,909,317). This has been affected by the decision during the year to change our reinsuring arrangements for business written prior to the commencement of the Administration and Reinsurance Agreements with Ecclesiastical Insurance Office plc. This involved a commutation of our existing contract with AXA and the provision of fresh cover with Ecclesiastical Insurance. The income statement consequently reflects the one-off effects of these transactions on premiums and reinsurance recoveries. The statement of financial position also incorporates the impact on the company's reinsurance assets.

The company continues to maintain a strong capital base, over and above the FSA regulatory requirements.

We are pleased to have been able to make a grant of £550,000 (2009 £550,000) to be shared between the Methodist Church in Britain and in Ireland, as well as some regular smaller property grants to local churches.

We continue to be well served by our operational arrangements with Ecclesiastical Insurance Office plc, under the leadership of John Coates our General Manager.

Our processes and procedures continue to be monitored and refreshed and we are very alert to the requirements of increasing regulation. This year, we continued to focus on the standards that underpin delivering excellent customer experiences. Transition to a core customer focused culture can be challenging, but we have demonstrated the core values, commitment and understanding to achieve good progress, as well as delivering operational efficiencies and procedures to meet customer needs and expectations.

Methodist Insurance PLC

Directors' Report

Particular focus has been placed on professionalism and staff development, to underpin the emphasis placed on quality, timeliness, and understanding our customers' experiences. It is pleasing to see that our customer satisfaction surveys have continued to rise. Ongoing measurement of service through customer satisfaction surveys showed that over 90% of our customers continue to be satisfied with the service received. Claims reported 93% extremely or very satisfied and 99% satisfied result.

Many of our staff have been successful in obtaining further professional qualifications and, on behalf of the Board, I express our gratitude to those who have worked so hard on behalf of the Company, both the dedicated staff in Manchester and our colleagues in Gloucester and around the country.

Challenges remain and we will continue to monitor the effects of church closures and circuit amalgamations. We remain committed to our core market of Methodist churches and charities and improving the service we give to them, this year we have produced what we hope are a helpful series of practical guidance brochures.

We have seen a healthy growth in household business and will be seeking to encourage more of the Methodist community to insure their houses and contents with us.

In terms of service and understanding our customers' needs, we believe we have something special to offer.

David S. Walton
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 are

- During the year, the company accepted a commutation proposal from a reinsurer and purchased replacement reinsurance in the form of adverse development protection cover from Ecclesiastical Insurance Office plc. However, due to the nature of the new reinsurance arrangement, the company is exposed to the risk of claims being incurred above the current level of provisions, up to the point at which the new reinsurance cover takes effect
- The impact on profit commission if there are underwriting losses or significantly adverse claims experience. This is disclosed further under note 3 – Insurance risk
- Investment returns and the security of the investment portfolio. Financial risk is discussed in more detail in note 4
- The reliance on Ecclesiastical Insurance Office plc from an operational perspective. This is highlighted further in note 4b) - Credit risk

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 £1,915,805 (2009 £2 478,943 profit)

The directors recommend the payment of dividends on the amounts paid up on the company's ordinary shares, for the year ended 31 December 2010, absorbing the sum of £187 (2009 £187). This equates to a dividend of 1p per share (2009 1p per share)

Charitable and political grants

Charitable grants during the year amounted to £550,000 (2009 £555,000). The company did not make any contributions for political purposes (2009 £nil)

Directors

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

D S Walton and A G Gibbs retire by rotation and, being eligible, offer themselves for re-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 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 2010 (2009 £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

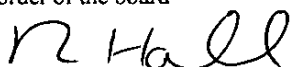
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies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



Mrs R J Hall
Secretary
29 March 2011

Methodist Insurance PLC

Independent Auditor's Report

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

We have audited the financial statements of Methodist Insurance PLC for the year ended 31 December 2010 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As 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, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (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/private.cfm.

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 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006.


Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



Jonathan Holt (Senior Statutory Auditor)
for and on behalf of KPMG Audit PLC
Statutory Auditor
St James Square
Manchester, M2 6DS
29 March 2011

Methodist Insurance PLC

Income Statement

for the year ended 31 December 2010

	Notes	2010 £	2009 £
Revenue			
Gross written premiums	5	10,771,022	11,053,995
Outward reinsurance premiums	5	(13,651,022)	(11,053,995)
Net change in provision for unearned premiums	5	-	-
Net earned premiums	5	(2,880,000)	-
Commission income	6	1,554,119	1,637,768
Net investment return	7	2,436,295	2,580,139
Total revenue		1,110,414	4,217,907
Expenses			
Claims and change in insurance liabilities	8	(645,002)	(2,924,051)
Reinsurance recoveries	8	2,727,202	1,896,806
Commissions and other acquisition costs	9	(133,641)	(147,783)
Other operating and administrative expenses		(172,095)	(133,562)
Total operating expenses		1,776,464	(1,308,590)
Operating profit	10	2,886,878	2,909,317
Charitable grants	13	(550,000)	(555,000)
Profit before income tax		2,336,878	2,354,317
Income tax (expense)/recoverable	14	(421,073)	124,626
Profit attributable to equity holders	21	1,915,805	2,478,943

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 2010

	2010	2009
	£	£
Actuarial losses relating to pension asset	(113,000)	(119,000)
Elimination of pension fund movement	97,000	79,000
Movement on deferred tax relating to pension asset	4,320	11,200
Net expense recognised directly in equity	(11,680)	(28,800)
Profit for the year after income tax	<u>1,915,805</u>	<u>2,478,943</u>
Total comprehensive income for the year	<u>1,904,125</u>	<u>2,450,143</u>

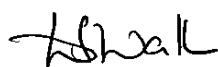
Methodist Insurance PLC

Statement of Financial Position

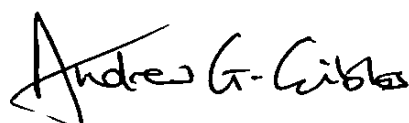
at 31 December 2010

	Notes	2010 £	2009 £
Assets			
Financial investments	17	18,841,276	16,078,311
Reinsurers' share of insurance contract provisions	22	15,628,405	20,980,769
Current tax recoverable		-	9,905
Other assets	18	1,389,068	1,643,317
Cash and cash equivalents	19	5,079,856	4,181,701
Total assets		40,938,605	42,894,003
Equity			
Share capital	20	112,500	112,500
Retained earnings	21	15,219,326	13,315,388
Total shareholders' equity		15,331,826	13,427,888
Liabilities			
Insurance contract provisions	22	23,008,044	26,879,418
Deferred tax liabilities	23	345,772	377,191
Current tax liabilities		448,172	-
Other liabilities	24	1,804,791	2,209,506
Total liabilities		25,606,779	29,466,115
Total shareholders' equity and liabilities		40,938,605	42,894,003

The financial statements of Methodist Insurance PLC, company registration number 6369, on pages 8 to 35 were approved by the board of directors on 29 March 2011 and signed on their behalf by



D S Walton Chairman



A G Gibbs Deputy Chairman

Methodist Insurance PLC

Statement of Changes in Equity

for the year ended 31 December 2010

	2010	2009
	£	£
Opening shareholders' equity	13,427,888	10,977,932
Total comprehensive income for the year	1,904,125	2,450,143
Dividends payable	(187)	(187)
Closing shareholders' equity	15,331,826	13,427,888

Methodist Insurance PLC

Statement of Cash Flows

for the year ended 31 December 2010

	2010	2009
	£	£
Profits before tax	2,336,878	2,354,317
<i>Adjustments for</i>		
Net fair value gains on financial investments	(2,023,227)	(2,179,813)
Income from investments	(525,770)	(542,836)
<i>Changes in operating assets and liabilities</i>		
Net decrease in insurance contract provisions	(3,871,374)	(1,817,763)
Net decrease in reinsurers' share of contract provisions	5,352,364	2,696,981
Net decrease/(increase) in other assets	229,457	(397,909)
Net decrease in other liabilities	(404,715)	(1,173,871)
Cash generated/(used) by operations	1,093,613	(1,060,894)
Dividends received	248,397	207,826
Interest received	286,165	337,897
Income tax received/(paid)	9,905	(2,585)
Net cash from/(used by) operating activities	1,638,080	(517,756)
Cash flows from investing activities		
Sales of financial investments	3,421,723	3,505,159
Purchases of financial investments	(4,161,461)	(3,754,400)
Net cash used by investing activities	(739,738)	(249,241)
Cash flows from financing activities		
Dividends paid to company's shareholders	(187)	(187)
Net cash used by financing activities	(187)	(187)
Net increase/(decrease) in cash and cash equivalents	898,155	(767,184)
Cash and cash equivalents at beginning of year	4,181,701	4,948,885
Cash and cash equivalents at end of year	5,079,856	4,181,701

Methodist Insurance PLC

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.

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

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

In the current year minor amendments to IAS 36, *Impairment of Assets* and IAS 38, *Intangible Assets* became effective and might impact future periods in respect of the measurement of goodwill and intangible assets in the event of future business combinations. The company has no transactions within the scope of other standards issued or amended in the year.

The company has not adopted early IAS 24 (revised), *Related Party Disclosures* (effective 1 January 2011) or IFRS 9, *Financial Instruments* (effective 1 January 2013). IAS 24 (revised) amends the definition of a related party and IFRS 9 establishes principles for the financial reporting of financial assets, simplifying the existing IAS 39 classifications and measurement methods. Neither standard is expected to significantly impact the company.

Use of estimates

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

Foreign currency translation

Foreign currency transactions are translated into sterling using exchange rates prevailing at the year end date. 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.

Premium income

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

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

Fee and commission income

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

Methodist Insurance PLC

Notes to the Financial Statements

1 Accounting policies (continued)

Net investment return

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

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

Claims

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

Insurance contract liabilities

(i) Outstanding claims provisions

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

(ii) Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as a provision for unearned premiums The change in this provision is taken to the 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 year and date, that claims and administrative expenses are expected to exceed unearned premiums, after taking account of future investment income Unexpired risks are assessed separately for each class of business Surpluses and deficits are offset where business classes are considered to be managed together

Reinsurance

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

During the year, the company purchased additional reinsurance cover with Ecclesiastical Insurance Office plc This protection cover limits the company's liability to adverse development in historical child abuse claims in children's homes

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

Methodist Insurance PLC

Notes to the Financial Statements

1 Accounting policies (continued)

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 statement of financial position, when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously

Receivables arising from insurance and reinsurance contracts

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

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

Cash and cash equivalents

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

Provisions and contingent liabilities

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

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

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

Methodist Insurance PLC

Notes to the Financial Statements

1 Accounting policies (continued)

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

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

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

Deferred tax assets and liabilities are not discounted.

Appropriations

Dividends

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.

(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.

Methodist Insurance PLC

Notes to the Financial Statements

3 Insurance risk

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

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

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

General business risks

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

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

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.

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.

Methodist Insurance PLC

Notes to the Financial Statements

3 Insurance risk (continued)

Frequency and severity of claims (continued)

Concentrations of risk

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

			Type of risk			Total £
			Property £	Liability £	Accident £	
2010						
United Kingdom	Gross		8,584,160	1,345,986	274,463	10,204,609
	Net		-	(2,880,000)	-	(2,880,000)
Eire	Gross		429,814	127,402	9,197	566,413
	Net		-	-	-	-
Total	Gross		9,013,974	1,473,388	283,660	10,771,022
	Net		-	(2,880,000)	-	(2,880,000)
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		-	-	-	-

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 event that gives rise to the claim, however there is variability around this average with larger claims typically taking longer to settle.

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

Methodist Insurance PLC

Notes to the Financial Statements

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, having a consequent impact on the uncertainty as to the length of the claims settlement process and the ultimate settlement amounts.

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

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

Note 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 and latent claims where aggregation of claimants and exposure over time are a factor
- 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.

Methodist Insurance PLC

Notes to the Financial Statements

4 Financial risk and capital management

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

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

Categories of financial instruments

	Financial assets			Financial liabilities at amortised cost	Non-financial assets and liabilities	Total
	Designated at fair value	Available for sale	Loans and receivables			
As at 31 December 2010	£	£	£	£	£	£
Financial						
Investments	18,816,276	25,000	-	-	-	18,841,276
Other assets	-	-	1,371,585	-	17,483	1,389,068
Cash and cash equivalents	-	-	5,079,856	-	-	5,079,856
Other liabilities	-	-	-	(1,620,736)	(184,055)	(1,804,791)
Total	18,816,276	25,000	6,451,441	(1,620,736)	(166,572)	23,505,409
Net other liabilities						(8,173,583)
Net asset						15,331,826
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

Fair value hierarchy

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

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

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

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

All financial investments held by the company and designated at fair value are classified as level 1, except corporate bonds of £1,074,576 (2009: £1,021,924) which are classified as level 2. 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.

Methodist Insurance PLC

Notes to the Financial Statements

4 Financial risk and capital management (continued)

(a) Interest rate risk

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

	Maturing within			Total £
	Less than 1 year £	1-5 years £	More than 5 years £	
As at 31 December 2010				
Debt securities	-	2,102,655	6,923,569	9,026,224
Other assets including insurance receivables	648,200	-	-	648,200
Cash and cash equivalents	5,079,856	-	-	5,079,856
	5,728,056	2,102,655	6,923,569	14,754,280
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

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.

Methodist Insurance PLC

Notes to the Financial Statements

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, 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 €2,291,026 (2009: €2,886,509), liabilities total €1,392,268 (2009: €1,563,933).

(e) Equity price risk

The company is exposed to equity securities price risk from 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.

Variable	Change in variable	Potential increase/ (decrease) in profit after tax	
		2010 £	2009 £
Interest rate risk	-100 basis points	514,239	424,478
	+100 basis points	(463,402)	(383,694)
Currency risk	-10 0%	(55,446)	(84,607)
	+10 0%	55,446	84,607
Equity price risk	-10 0%	(706,234)	(595,920)
	+10 0%	706,234	595,920

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% (2009: 28%)

Methodist Insurance PLC

Notes to the Financial Statements

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 2010, capital resources available to meet FSA requirements totalled £15,271,000 (2009: £13,393,000). The company has complied with all externally imposed capital requirements throughout the year.

5 Net insurance premium

	2010 £	2009 £
Gross written premiums	10,771,022	11,053,995
Change in the gross provision for unearned premiums	169,702	(178,126)
Gross earned premiums	10,940,724	10,875,869
Outward reinsurance premiums	(13,651,022)	(11,053,995)
Change in the provision for unearned premiums, reinsurers' share	(169,702)	178,126
Reinsurers' share of unearned premiums	(13,820,724)	(10,875,869)
Net written premiums	(2,880,000)	-
Net earned premiums	(2,880,000)	-

The £2,880,000 net earned premium expense relates to a payment for adverse development protection in connection with a new reinsurance arrangement for claims prior to 1 July 1998. This is covered in more detail in note 22.

6 Commission income

	2010 £	2009 £
Reinsurance commissions and profit commission	1,531,547	1,609,526
Other commissions	22,572	28,242
	1,554,119	1,637,768

Methodist Insurance PLC

Notes to the Financial Statements

7 Net investment return

	2010	2009
	£	£
<i>Investments at fair value through the income statement</i>		
- dividend income	244,551	200,191
- interest income	222,649	270,625
<i>Other investments</i>		
- cash and cash equivalents income	(30,637)	(77,660)
- other income received	40,150	56,657
Investment income	476,713	449,813
Fair value gains on investments at fair value through the income statement	2,023,227	2,179,813
Investment expenses	(63,645)	(49,487)
Net investment return	2,436,295	2,580,139

Included within cash and cash equivalents income are exchange losses of £49,057 (2009 £93,023 losses)

8 Claims and change in insurance liabilities and reinsurance recoveries

	2010	2009
	£	£
Gross claims paid	4,346,674	4,919,940
Gross change in the provision for claims	(3,701,672)	(1,995,889)
Claims and change in insurance liabilities	645,002	2,924,051
Reinsurers' share of claims paid	(7,909,864)	(4,771,913)
Reinsurers' share of change in the provision for claims	5,182,662	2,875,107
Reinsurance recoveries	(2,727,202)	(1,896,806)
Claims and change in insurance liabilities, net of reinsurance	(2,082,200)	1,027,245

Included within reinsurers' share of claims paid is a receipt of £3,750,000 (2009 £nil) in respect of a commutation arrangement with a reinsurer. This is covered in more detail in note 22.

9 Commissions and other acquisition costs

	2010	2009
	£	£
Commission paid	133,641	147,783

10 Operating profit

	2010	2009
	£	£
Operating profit has been arrived at after charging		
Net foreign exchange losses	49,057	93,023
Directors' emoluments	58,261	53,568

11 Auditors' remuneration

	2010	2009
	£	£
Fees payable to the company's auditors for the audit of the company's accounts	40,065	40,053
Other services pursuant to legislation	5,807	5,650
Fees payable to the company's auditors for the audit of the pension scheme	3,737	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

	2010 £	2009 £
Charitable grants to Methodist funds and organisations	550,000	550,000
Charitable grants to other organisations	-	5,000
	550,000	555,000

14 Income tax

	2010 £	2009 £
UK corporation tax for the current financial year	421,172	243
Adjustment in respect of prior periods	27,000	768
Total current tax charge	448,172	1,011
Deferred taxation relating to the pension scheme	4,320	11,200
Other deferred taxation charges	(17,948)	(136,837)
Impact of change in tax rate on deferred tax provision	(13,471)	-
Income tax charge/(recoverable)	421,073	(124,626)

Tax on the company's profit before tax differs from the United Kingdom standard rate of corporation tax of 28% (2009 28%) for the reasons set out in the following reconciliation

	2010 £	2009 £
Profit before tax	2,336,878	2,354,317
Tax calculated at the UK standard rate of 28% (2009 28%)	654,326	659,209
<i>Factors affecting charge for the period</i>		
Non-taxable franked investment income	(130,535)	(78,903)
Unrealised gains on investments crystallising	(118,546)	-
Expenses not deductible for tax purposes	3,561	85,983
Tax charged at non standard rate	(434)	-
Impact of change in deferred tax rate	(13,471)	-
Unutilised tax losses	-	(791,926)
Other items	(828)	243
Adjustments to tax charge in respect of prior periods	27,000	768
Income tax charge/(recoverable)	421,073	(124,626)

A change in the UK standard rate of corporation tax from 28% to 27% was substantively enacted on 20 July 2010 and will be effective from 1 April 2011. This is not expected to materially impact the tax charge. Further planned reductions of 1% per annum over 3 years, reducing the standard rate to 24% from April 2014, were announced in the June 2010 budget but have not yet been substantively enacted.

15 Appropriations

	2010 £	2009 £
Amounts recognised as distributions to equity holders in the period		
Dividends	187	187

This equates to a dividend of 1p per share (2009 1p)

Methodist Insurance PLC

Notes to the Financial Statements

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 liabilities are discharged by the purchase of annuities on the commencement of members' pensions. The most recently reviewed actuarial valuation showed that the notional value of the scheme's assets was £2,963,000, representing 142% of the benefits accrued to members. Pension obligations are unchanged in the year and the surplus in the scheme has decreased by £97,000 from £971,000 to £874,000.

The full actuarial valuation for the defined benefit pension scheme has been reviewed and updated by a qualified independent actuary at 31 December 2010. The financial assumptions used were as follows:

	2010	2009
Inflation	3.5%	3.7%
Increase in salary	n/a	n/a
Increase in pensions - in payment	4.0%	4.0%
Increase in pensions - deferred pensions	3.5%	3.7%
Expected return on plan assets - Deferred members	4.2%	4.5%
Expected return on plan assets - Insured pensioners	5.4%	5.7%
Discount rate for scheme liabilities	5.4%	5.7%

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:

	2010 £	2009 £
Present value of funded obligations	(2,089,000)	(2,116,000)
Fair value of scheme assets	2,963,000	3,087,000
Surplus in the scheme	874,000	971,000
Restriction to net asset due to recoverability	(874,000)	(971,000)
Net asset in the statement of financial position	-	-

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

	2010 £	2009 £
Bonds	1,222,000	1,384,000
Insured pensioners	1,741,000	1,703,000
Total scheme assets	2,963,000	3,087,000

Methodist Insurance PLC

Notes to the Financial Statements

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

	2010 £	2009 £
<i>Analysis of amounts charged to income statement</i>		
Current service cost	(6,000)	(6,000)
Expected return on scheme assets	131,000	164,000
Interest cost on scheme liabilities	(115,000)	(124,000)
Contributions paid by Ecclesiastical	6,000	6,000
Total included within income statement	16,000	40,000
<i>Analysis of amounts included in the statement of comprehensive income</i>		
Difference between actual and expected return on scheme assets	(18,000)	12,000
Effects of changes in assumptions underlying the present value of scheme liabilities	(55,000)	(226,000)
Experience (losses)/gains arising on scheme liabilities	(40,000)	95,000
Total actuarial losses	(113,000)	(119,000)
Elimination of pension movement	97,000	79,000

The actual return on scheme assets was a £113,000 gain (2009 £176,000 gain)

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

	2010 £	2009 £
<i>Scheme assets</i>		
As at 1 January	3,087,000	2,911,000
Pension benefits paid and payable	(243,000)	(6,000)
Contributions paid	6,000	6,000
Expected return on scheme assets	131,000	164,000
Actuarial (losses)/gains	(18,000)	12,000
As at 31 December	2,963,000	3,087,000
<i>Defined benefit obligation</i>		
As at 1 January	2,116,000	1,861,000
Current service cost	6,000	6,000
Pension benefits paid and payable	(243,000)	(6,000)
Interest cost on scheme liabilities	115,000	124,000
Actuarial losses	95,000	131,000
As at 31 December	2,089,000	2,116,000

The surplus in the scheme has not been recognised in the statement of financial position for the reason stated above

The movement in the statement of financial position 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	131,000	164,000
Interest cost on scheme liabilities	(115,000)	(124,000)
Actuarial losses	(113,000)	(119,000)
Elimination of pension movement	97,000	79,000
As at 31 December	-	-

Methodist Insurance PLC

Notes to the Financial Statements

16 Pension asset (continued)

History of experience gains and losses

	2010	2009	2008	2007	2006
	£	£	£	£	£
Fair value of scheme assets	2,963,000	3,087,000	2,911,000	1,363,000	1,665,000
Present value of defined benefit obligations	(2,089,000)	(2,116,000)	(1,861,000)	(341,000)	(862,000)
Surplus	874,000	971,000	1,050,000	1,022,000	803,000
Experience adjustments on scheme liabilities	(40,000)	95,000	(1,000)	149,000	145,000
Experience adjustments on scheme assets	(18,000)	12,000	(84,000)	(29,000)	210,000

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 (2009 £nil)

The contribution expected to be paid during the year ended 31 December 2011 is £nil

17 Financial investments

	2010	2009
	£	£
<i>Financial investments at fair value through the income statement</i>		
Equity securities		
- listed	9,808,802	8,276,661
Debt securities		
- government bonds	7,932,898	6,754,726
- listed	1,074,576	1,021,924
<i>Financial investments available for sale</i>		
Equity securities		
- unlisted	6,250	6,250
Debt securities		
- unlisted	18,750	18,750
Total financial investments	18,841,276	16,078,311

All financial investments are current

18 Other assets

	2010	2009
	£	£
<i>Receivables arising from insurance and reinsurance contracts</i>		
- due from contract holders	1,046,173	1,033,203
- due from agents, brokers and intermediaries	208,567	259,536
- due from reinsurers	-	22,220
<i>Other receivables</i>		
- accrued interest	96,557	101,503
- other prepayments and accrued income	37,771	226,855
	1,389,068	1,643,317

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 (2009 £nil) in other operating and administrative expenses in the income statement for the impairment of its receivables during the year. At 31 December 2010, £48,595 (2009 £88,631) of receivables were past due and not impaired

Methodist Insurance PLC

Notes to the Financial Statements

19 Cash and cash equivalents

	2010	2009
	£	£
Cash at bank and in hand	221,693	988,631
Short term bank deposits	4,858,163	3,193,070
	5,079,856	4,181,701

The above carrying amounts are a reasonable approximation of fair value

20 Called up share capital

	2010	2009
	£	£
<i>Issued, allotted and fully paid</i>		
18,750 shares of £6, each fully paid	112,500	112,500

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

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

21 Retained earnings

	2010	2009
	£	£
Balance at 1 January	13,315,388	10,865,432
Profit for the period	1,915,805	2,478,943
Net losses relating to pension fund	(11,680)	(28,800)
Dividends	(187)	(187)
Balance at 31 December	15,219,326	13,315,388

Methodist Insurance PLC

Notes to the Financial Statements

22 Insurance liabilities and reinsurance assets

Claims outstanding

	2010	2009
	£	£
Gross		
Claims outstanding	16,559,182	20,260,854
Unearned premiums	6,448,862	6,618,564
Total gross insurance liabilities	23,008,044	26,879,418
Recoverable from reinsurers		
Claims outstanding	9,179,543	14,362,205
Unearned premiums	6,448,862	6,618,564
Total reinsurers' share of insurance liabilities	15,628,405	20,980,769
Net		
Claims outstanding	7,379,639	5,898,649
Unearned premiums	-	-
Total net insurance liabilities	7,379,639	5,898,649
Gross insurance liabilities		
Current	11,119,353	9,774,967
Non-current	11,888,691	17,104,451
	23,008,044	26,879,418
Reinsurance assets		
Current	11,119,353	9,774,967
Non-current	4,509,052	11,205,802
	15,628,405	20,980,769

The company accepted a commutation proposal from a reinsurer during the year. A cash amount of £3,750,000 was received in settlement of a reinsurers' recoverable provision of £5,450,000. This provision has been released in full through the income statement for the current year.

Following commutation of the reinsurance cover, the company purchased £2,880,000 of adverse development protection from Ecclesiastical Insurance Office plc to mitigate any further adverse development in the associated underlying risks.

Methodist Insurance PLC

Notes to the Financial Statements

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.

Of the total claims provision £5,574,244 (2009 £8,918,135) gross and £5,574,244 (2009 £3,789,880) net after assumed reinsurance recoveries relate to this matter.

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

Methodist Insurance PLC

Notes to the Financial Statements

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

	2010		2009	
	Gross £000	Net £000	Gross £000	Net £000
Liability	1,162	699	1,492	532
Property	455	-	475	-

(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 £000	2002 £000	2003 £000	2004 £000	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	Total £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	6,271	
One year later	2,488	7,922	6,596	3,280	3,304	4,225	6,734	6,327	3,905		
Two years later	2,441	8,179	5,230	3,093	3,010	4,307	6,461	6,100			
Three years later	2,510	8,659	4,936	2,884	3,075	4,277	6,051				
Four years later	2,316	8,635	4,847	2,881	3,173	3,946					
Five years later	2,287	8,789	4,887	2,841	3,238						
Six years later	2,345	8,804	4,834	2,798							
Seven years later	2,345	8,815	4,793								
Eight years later	2,348	8,755									
Nine years later	2,296										
Current estimate of ultimate claims	2,296	8,755	4,793	2,798	3,238	3,946	6,051	6,100	3,905	6,271	48,153
Cumulative payments to date	(2,249)	(8,638)	(4,566)	(2,747)	(3,023)	(3,770)	(5,534)	(4,265)	(2,708)	(1,600)	(39,100)
Outstanding liability	47	117	227	51	215	176	517	1,835	1,197	4,671	9,053
Liability in respect of earlier years											7,121
Internal claims handling reserve											385
Total liability included in insurance liabilities in the statement of financial position											16,559

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 2010	20,260,854	(14,362,205)	5,898,649
Cash (paid)/received for prior year claims settled in the year	(2,746,311)	6,309,501	3,563,190
Change in prior year (reinsurance assets)/liabilities	(5,625,852)	3,543,652	(2,082,200)
Prior year liabilities/(reinsurance assets) at 31 December 2010	11,888,691	(4,509,052)	7,379,639
Current year claims/(recoveries)	6,270,854	(6,270,854)	-
Cash (paid)/received for current year claims settled in the year	(1,600,363)	1,600,363	-
Current year liabilities/(reinsurance assets) at 31 December 2010	4,670,491	(4,670,491)	-
At 31 December 2010	16,559,182	(9,179,543)	7,379,639
Provision for unearned premiums			
At 1 January 2010	6,618,564	(6,618,564)	-
Movement in the year	(169,702)	169,702	-
At 31 December 2010	6,448,862	(6,448,862)	-
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 (reinsurance assets)/liabilities	(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 current 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)	-

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

Methodist Insurance PLC

Notes to the Financial Statements

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 2009	-	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
Charge/(credit) to income	4,320	(170,529)	4,081	148,500	(13,628)
(Credit)/charge to income resulting from reduction in tax rate		(19,727)	756	5,500	(13,471)
Credit to equity	(4,320)	-	-	-	(4,320)
At 31 December 2010	-	362,096	(16,324)	-	345,772

24 Other liabilities

	2010 £	2009 £
Creditors arising out of direct insurance operations	-	1,311
Creditors arising out of reinsurance operations	1,481,885	1,392,807
Other creditors	244,839	209,905
Accruals	78,067	605,483
	1,804,791	2,209,506

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

25 Capital commitments

At 31 December 2010 there were £nil (2009 £nil) outstanding contracts for capital expenditure

26 Significant shareholding

At 31 December 2010 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 2010 show capital and reserves of £278,484 (2009 £236,349) following a profit for the year of £52,135 (2009 £19,383). There is no market in the company's shares and they have, therefore, been valued at cost in the accounts.

Methodist Insurance PLC

Notes to the Financial Statements

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 £6,358,370 (2009 £6,168,956) during the year to Ecclesiastical Insurance Office plc, which also bore expenses of the company's business of £2,222,701 (2009 £2,518,156). The reinsurers' share of technical provisions due from Ecclesiastical Insurance Office plc as at 31 December 2010 is £15,555,913 (2009 £15,519,862) which consists of £6,376,371 (2009 £6,540,913) of unearned premium and £9,179,542 (2009 £8,978,950) of outstanding claims. At 31 December 2010 £1,470,474 (2009 £1,377,071) was due to Ecclesiastical Insurance Office plc. Information about key management personnel compensation is provided in note 10 to the financial statements.

During the year, in addition to the above transactions, the company purchased additional reinsurance cover with Ecclesiastical Insurance Office plc. This protection cover limits the company's liability to adverse development in historical child abuse claims in children's homes. The company ceded premiums net of claims paid and commissions to the value of £2,880,000 (2009 £nil).

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.