

# Annual Report

2012



REGISTRATION NUMBER: 00083597

**The Baptist Insurance Company PLC**  
Report and Accounts 31 December 2012

# The Baptist Insurance Company PLC

## Report and accounts 31 December 2012

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# The Baptist Insurance Company PLC

## Officers and Professional Advisers

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<b>Directors during the year</b>	M.N. Hayes BSc, FI Chem. E, FCII <i>Chairman</i> M.R. Buttrick FCCA, FCT <i>Deputy Chairman</i> M.A. Broad MBE G. Clubbe ACII J.M. Coates ACII ( <i>Appointed 8 May 2012</i> ) T.E. Mattholie ACII ( <i>Retired 31 December 2012</i> ) D.E. Nixon FCCA T.J. Rose MBA, C Dir M.H. Tripp BSc, ARCS, FIA ( <i>Retired 8 May 2012</i> ) Revd. P.J. Wortley BA, BD
<b>Company Secretary</b>	Mrs R. J. Hall FCIS
<b>General Manager</b>	J. M. Coates ACII
<b>Auditor</b>	Deloitte LLP, London
<b>Registered Office</b>	Beaufort House, Brunswick Road, Gloucester, GL1 1JZ
<b>Company Registration Number</b>	00083597

## Directors' Biographies

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### **M.N. Hayes BSc, FI Chem. E, FCII Chairman**

Born 1946

Appointed to the board in 2006. Managing Director of a business consultancy. Formerly a director of Zurich Commercial Business UK. Qualified engineer and chartered insurer. Non-executive Director of a renewable energy business and a Christian charity, Director of a Christian Bank and Chair of Risk Committee, Treasurer of Chipping Campden Baptist Church. Member of the BU Council.

### **M.R. Buttrick FCCA, FCT Deputy Chairman**

Born 1952

Appointed to the board in 2008. Formerly on the executive of a major UK building society. Qualified accountant and corporate treasurer. Former Treasurer and Trustee of Tearfund. Currently a Trustee of a Christian global children at risk organisation and Chairman of an asset holding company of an international Christian organisation. Member of Chipping Campden Baptist Church.

### **M.A. Broad MBE**

Born 1950

Appointed to the board in 2011. Retired Senior Commercial Manager at HSBC Bank plc. Treasurer of the Baptist Union of Great Britain. Treasurer of Bristol Baptist College. Moderator of the Baptist Pension Scheme Investment Committee. Director of the Baptist Union Corporation Limited. Treasurer and Deacon of Keynsham Baptist Church.

### **G. Clubbe ACII**

Born 1934

Appointed to the board in 1996. Formerly employed by a leading composite insurer in a managerial position, now retired. Formerly non-executive director of an NHS Foundation Hospital Trust. Former Director and Chairman of a Christian holiday company. Member of Park Road Baptist Church, Peterborough.

### **J.M. Coates ACII**

Born 1952

Appointed to the board in 2012. General Manager of Baptist Insurance Company and Corporate Client Director of Ecclesiastical Insurance Office plc.

### **T.E. Mattholie ACII**

Born 1940

Appointed to the board in 1998. A qualified Chartered Insurer. He retired from his executive position of General Manager in 1998. Member of Chipping Campden Baptist Church.

### **D.E. Nixon FCCA**

Born 1930

Appointed to the board in 1993. Formerly senior partner of a Reading firm of accountants and subsequently director of a light aviation business. Formerly treasurer of The Baptist Union of Great Britain. Deacon of Wokingham Baptist Church. Former treasurer of the Southern Counties Baptist Association.

### **T.J. Rose MBA, C Dir**

Born 1959

Appointed to the board in 2002. Managing director of a management consultancy and a Director of the Bible Society Resources Board. Formerly Director of a major City broking house specialising in wholesale financial instruments. A qualified Chartered Director and member of the Investments Committee of The Baptist Union. Deacon of Colchester Baptist Church.

### **M.H. Tripp BSc, ARCS, FIA**

Born 1955

Appointed to the board in 2007. Group Chief Executive of Ecclesiastical Insurance Office plc. Previously a partner at Ernst & Young and Watson Wyatt and before that with Guardian Royal Exchange.

### **Revd. P.J. Wortley BA, BD**

Born 1936

Appointed to the board in 1981. Retired Baptist minister. President of Baptist Union of Great Britain 2001-2002. Currently member of Southcourt Baptist Church, Aylesbury and Committee member of the Retired Baptist Minister Housing Society. Formerly secretary, London Baptist Association and London Baptist Property Board Limited.

## Directors' Report

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The directors present their annual report and financial statements for the year ended 31 December 2012.

### Chairman's review of business operations

#### Overview

We are pleased to be able to report a continued improvement in our pre-tax result for the year ending 31 December 2012 with an underwriting result lower than 2011 offset by a substantial improvement in the investment return following the realignment of the portfolio. This further improvement continues to build on the recovery which started during 2009.

I have previously reported on the challenges presented by the new Solvency II requirements for general insurers which should have been implemented from January 2013 onwards. Unfortunately I cannot provide more details as the authorities have still not confirmed the minimum capital requirements for smaller insurers and the implementation date has been delayed.

The downside of this is that we need to retain conservative levels of capital which restricts our grant paying freedom until clarity is received. Notwithstanding this constraint we have increased our grant giving by over 30% and intend to see this further increased as we investigate all possible capital avenues to release finance and support the evangelical thrust of Baptist pioneers.

I would like to pay a personal tribute to Terry Mattholie who retired in December 2012. He served the company with considerable skill and capability as well as always acting as a man of God's anointing in his work. Initially taking over in 1994 as General Manager he was instrumental in moving the company from London to Gloucester and latterly served with distinction as an active member of the Board. We will greatly miss his market knowledge, humour, insight and insurance skills but wish him God's continued blessing as he and Janet enjoy retirement together.

Returning to the business outline - the written premium increased by 2.1% which was a very positive outcome in a marketplace which has been and continues to be very competitive in all areas of the business. Retention levels remain encouragingly high as the vast majority of Baptist churches value the highly responsive service and helpful advice from the underwriting, claims and administration teams.

The underwriting performance was encouraging, producing a positive result although substantially lower than 2011. The main reason for this was a reduction in profit commission receivable from Ecclesiastical Insurance Office plc on the reinsurance treaty underwriting result. This was due to the profit commission in 2011 benefitting from significant reinsurance recoveries from winter claims that have not arisen in 2012. We also experienced a number of alleged abuse claims which are currently being investigated and have affected reserves.

The investment markets were more positive throughout the year and our previous decision taken in 2009 to transfer a proportion of our investments into fixed interest instruments has stabilised the capital base of your company and helped reduce volatility throughout 2012. We slightly increased our holding of UK, European and Global equities to enable the company to benefit from growth in the wider economy as we continue to climb slowly and erratically out of global recession.

This shift in investment emphasis has produced the impact intended and we have benefited from significant gains in all areas of our portfolio. We continue to monitor the spread of investments on a regular basis with considerable debate within the investment committee and believe we have refined our investment base into an optimum mix of equities and fixed interest instruments. This is designed to provide appropriate balanced returns to the company to complement the underwriting performance and smooth the overall results. This has been very evident in 2012 where the net underwriting performance was lower than 2011 whilst the investment returns were much higher leading to an overall increased result.

It is a source of encouragement that we are increasingly being seen as a centre of excellence for advice and risk support to our insured churches, manses and individuals. In an environment where increased legislative pressures are facing church leadership teams we are proud to be at the forefront of supporting those local teams as they work through a whole raft of risk assessment and safety issues.

The risk prevention guidelines we circulated have been widely used by churches and associations across the country and will shortly be re-issued through The Baptist Union of Great Britain (BUGB) to provide further help to the churches.

Our sample Risk Assessment document for churches has been particularly well received and provides churches with a standard template for analysing and then managing their risks in conjunction with the specialist risk survey team who

## Directors' Report

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regularly visit and survey churches on a rolling programme. This will be subject to further awareness initiatives to the churches as there are still many churches which either do not undertake a risk analysis at all or have no documented evidence of a risk assessment. Lack of awareness in this area leaves a church potentially exposed in the event of an unfortunate incident.

During the year we further extended our sales initiative for new household and manse business and can report that this take up has been encouraging although still not yet to the levels we would like to see. This will be continued during 2013.

We have extended our working relationship with the Baptist Missionary Society (BMS) and expect that you will have seen our logo on some of the materials sent out from BMS. We are seeking to provide the most effective support and finance to their varied and at times exciting entrepreneurial mission initiatives and will report next year on the progress which has been made.

We remain a first choice insurer to the Baptist family and we are proud to be an integral part of supporting the many churches as they seek to increase their mission to those outside of Christ.

The specialist staff working in the business have continued to provide outstanding support during what has been a period of continued financial turmoil and we extend our grateful thanks to all the team for their unstinting efforts over this time. We would also like to express our thanks to Helen Richards who took over as manager of the unit during 2012 and has already had a very positive influence on the sales and operational parts of the business.

For those readers who prefer to study a more detailed breakdown of our financial performance for the year this is provided below.

### **Premium growth**

Gross written premiums rose to £3,457,000 (2011: £3,388,000) representing an increase of 2.1% on the previous year. Over the past five years premiums show a compound growth of 3.0% per annum. Premium growth can be attributed to new business activity especially in the household and commercial markets coupled with normal increases in indexation due to inflationary factors.

### **Claims ratio**

Our claims ratio (incurred claims to earned premiums) of 34.6% (2011: 43.4%) shows a nine point decrease on the previous year. Claims performance has benefitted from a lower volume of metal theft claims than in 2011 and we have been fortunate that we have not suffered the large losses of previous years which significantly affected performance.

### **Profit commission**

The reinsurance treaty with Ecclesiastical Insurance Office plc continues. The amount receivable for the current year based on the sharing of net underwriting result was £124,000 compared to £399,000 in 2011. The overall claims experience has been relatively benign for property claims with no large losses reported but the alleged abuse claims had a negative impact on the level of profit commission. The gross combined ratio on the reinsurance treaty results was better than budget although the net ratio was slightly worse by 2 percentage points.

### **Investment return**

The further recovery of the stock market in 2012 has meant that our underlying investments delivered a positive return. We continue to monitor and review the investment strategy to mitigate the risk of future losses. The net investment return was £418,000 (2011: £58,000) as the stock market regained some of the strength lost in previous years.

### **Grants**

The aim of the company and the directors continues to be to support the wider Baptist family. During 2012 grants of £100,000 (2011: £77,500) were paid or accrued.

### **Retained profits**

The factors outlined above have all had an influence on results for the year. Profit before tax has increased to £357,000 (2011: £314,000) and after the impact of tax the amount of retained profit has increased by £283,000 (2011: £308,000). The financial position finished stronger than last year with the net assets of the company at 163% (2011: 150%) of the regulatory capital requirement of the Financial Services Authority.

## Directors' Report

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### Conclusion

We are grateful to God for another year of success in the business and look to build further on this in 2013. We continue with our marketing initiatives, product launch and further development in our growth strategy and trust to be able to report continuing progress next year. During the coming year we will continue with the initiative to encourage individual Baptist householders to insure with the company. In this respect we continue to work alongside BUGB and BMS to further this ambition and ultimately to be able to provide more grant support to Baptist Evangelistic outreach.

Once again I would like to express my appreciation for the directors who have given their time and skill throughout the year. They serve sacrificially and are a continued support to the executive team who manage the day to day business on our behalf.

We trust this year to see continued financial success but our heart as a Board is to see spiritual breakthroughs and revival across the whole movement as we seek to support the Baptist family in their ground breaking work of the Gospel.

M.N. Hayes *Chairman*  
On behalf of the directors  
14 March 2013



## Directors' Report

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### Principal activity

The principal activity of the company is the transaction of fire, accident and ancillary liability insurance. All risks undertaken by the company are reinsured with the Ecclesiastical Insurance Office plc, except eligible terrorism risks which are reinsured with Pool Re. It is anticipated that the activities of the company will remain unchanged for the foreseeable future.

The Baptist Insurance Company PLC is a public limited company incorporated and domiciled in England, 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.

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 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 available cash balances, other readily marketable assets and access to short term bank funding.

The directors consider that the company is well placed to perform satisfactorily in the future.

The company reinsures its business 100% with Ecclesiastical Insurance Office plc, who also provides administrative services within a profit share arrangement. Therefore, except for investment, credit and counterparty risk, its financial risks are ultimately borne by the Ecclesiastical group, which has considerable financial resources. As a consequence, the directors believe the company is well placed to manage such risks in the foreseeable future, despite the current uncertain economic outlook. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

### Results

The results of the company for the year are shown in the income statement on page 9.

### Dividends

The directors recommend that the payment of dividends on the amounts paid up on the 4% cumulative preference shares and on the 5% cumulative ordinary shares, for the year ended 31 December 2012, absorbing the sum of £7,328 (2011: £7,328), be confirmed. This dividend is treated as interest payable on permanent interest bearing capital in the financial statements.

### Charitable and political grants

Charitable donations paid or accrued during the year comprising grants to Baptist causes referred to in the Chairman's review of business operations on page 5 amounted to £100,000 (2011: £77,500). The company did not make any contributions for political purposes (2011: £nil).

### Policy on payment of creditors

It is the company's policy to pay creditors promptly and fully, in accordance with the terms of their contracts. The company has not adopted any particular external code. The company had no trade creditors at 31 December 2012 (2011: £nil).

### Directors

The directors of the company at the date of this report are stated on page 1.

Mr J.M. Coates was appointed to the board on 8 May 2012. As a director nominated by Ecclesiastical Insurance Office plc he is not subject to retirement by rotation in accordance with the Articles of Association.

Mr G.Clubbe retires by rotation and has not offered himself for re-election.

Mr T.E. Matholie retired from the board on 31 December 2012.

Mr M.H. Tripp retired from the board on 8 May 2012.

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.

## Directors' Report

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### **Directors' responsibilities statement**

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 the 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 themselves 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 Deloitte LLP 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  
14 March 2013

## Independent Auditor's Report

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### **Independent auditor's report to the members of The Baptist Insurance Company PLC**

We have audited the financial statements of The Baptist Insurance Company PLC for the year ended 31 December 2012 which comprise the Income Statement, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 24. 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 of 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 Directors' Responsibilities Statement, 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 Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **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 2012 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, 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.

Simon Cleveland (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom  
14 March 2013

# The Baptist Insurance Company PLC

## Income Statement

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for the year ended 31 December 2012

	Notes	2012 £000	2011 £000
<b>Revenue</b>			
Gross written premiums	5	3,457	3,388
Outward reinsurance premiums	5	(3,457)	(3,388)
Net change in provision for unearned premiums	5	-	-
<b>Net earned premiums</b>	5	-	-
Fee and commission income	6	149	439
Net investment return	7	418	58
<b>Total revenue</b>		<b>567</b>	<b>497</b>
<b>Expenses</b>			
Claims and change in insurance liabilities	8	(1,185)	(1,448)
Reinsurance recoveries	8	1,167	1,456
Fees, commissions and other acquisition costs	9	(21)	(34)
Other operating and administrative expenses		(64)	(72)
<b>Total operating expenses</b>		<b>(103)</b>	<b>(98)</b>
<b>Operating profit</b>	10	<b>464</b>	<b>399</b>
Finance costs	13	(7)	(7)
Charitable grants	14	(100)	(78)
<b>Profit before tax</b>		<b>357</b>	<b>314</b>
Taxation	15	(74)	(6)
<b>Profit attributable to equity holders</b>		<b>283</b>	<b>308</b>

All of the amounts above are in respect of continuing operations.

The company had no recognised income or expense during the current financial year and the preceding financial year other than that included in the income statement. Accordingly, no separate statement of comprehensive income has been presented.

# The Baptist Insurance Company PLC

## Statement of Financial Position

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at 31 December 2012

	Notes	2012 £000	2011 £000
<b>Assets</b>			
Financial investments	16	3,937	3,679
Reinsurers' share contract provisions	21	5,746	5,802
Other assets	17	333	266
Cash and cash equivalents	18	1,271	1,028
<b>Total assets</b>		<b>11,287</b>	<b>10,775</b>
<b>Equity</b>			
General Reserve	19	394	486
Retained earnings		4,332	3,957
<b>Total equity</b>		<b>4,726</b>	<b>4,443</b>
<b>Liabilities</b>			
Permanent interest bearing capital	20	148	148
Insurance contract provisions	21	5,767	5,807
Current tax liabilities		65	-
Other liabilities	22	581	377
<b>Total liabilities</b>		<b>6,561</b>	<b>6,332</b>
<b>Total equity and liabilities</b>		<b>11,287</b>	<b>10,775</b>

The financial statements of The Baptist Insurance Company PLC, company registration number 00083597, on pages 9 to 27 were approved by the board of directors and authorised for issue on 14 March 2013 and signed on their behalf by:

M.N. Hayes  
*Chairman*

M.R. Buttrick  
*Deputy Chairman*

**Statement of Changes in Equity**

	Notes	<b>General reserve £000</b>	<b>Retained earnings £000</b>	<b>Total £000</b>
Balance at 1 January 2011		561	3,574	4,135
Transfer between reserves		(75)	75	-
Profit for the period		-	308	308
Balance at 31 December 2011		<u>486</u>	<u>3,957</u>	<u>4,443</u>
Balance at 1 January 2012		<b>486</b>	<b>3,957</b>	<b>4,443</b>
Transfer between reserves		(92)	92	-
Profit for the period		-	283	283
Balance at 31 December 2012	19	<u><b>394</b></u>	<u><b>4,332</b></u>	<u><b>4,726</b></u>

The transfers are due to the payment of charitable grants and interest payable on permanent interest bearing capital for the year.

# The Baptist Insurance Company PLC

## Statement of Cash Flows

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for the year ended 31 December 2012

	<b>2012</b>	2011
	<b>£000</b>	£000
<b>Profit before tax</b>	<b>357</b>	314
<i>Adjustments for:</i>		
Net fair value (gains)/losses on financial investments	<b>(219)</b>	98
Dividend and interest income	<b>(200)</b>	(158)
Finance expense	<b>7</b>	7
<i>Changes in operating assets and liabilities:</i>		
Net decrease in insurance contract provisions	<b>(40)</b>	(786)
Net decrease in reinsurers' share of contract provisions	<b>56</b>	778
Net (increase)/decrease in other assets	<b>(72)</b>	52
Net increase/(decrease) in other liabilities	<b>204</b>	(287)
<b>Cash generated by operations</b>	<b>93</b>	18
Dividends received	<b>85</b>	54
Interest received	<b>120</b>	100
Interest paid	<b>(7)</b>	(7)
Tax paid	<b>(9)</b>	(6)
<b>Net cash from operating activities</b>	<b>282</b>	159
<b>Cash flows from investing activities</b>		
Sales of financial investments	<b>857</b>	959
Purchases of financial investments	<b>(896)</b>	(1,122)
<b>Net cash used by investing activities</b>	<b>(39)</b>	(163)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>243</b>	(4)
Cash and cash equivalents at beginning of year	<b>1,028</b>	1,032
<b>Cash and cash equivalents at end of year</b>	<b>1,271</b>	1,028

## Notes to the Financial Statements

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### 1 Accounting policies

The principal accounting policies adopted in preparing the company's financial statements are set out below. These policies have been applied consistently throughout the current and prior financial year.

#### Basis of preparation

The company's financial statements have been prepared using the following accounting policies which are in accordance with International Financial Reporting Standards (IFRS) applicable at 31 December 2012 as issued by the International Accounting Standards Board and endorsed by the European Union (EU). The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments.

The company has elected not to produce consolidated financial statements. The subsidiaries are disclosed in note 24 and are dormant, having not traded since incorporation. The exemption in Companies Act 2006 s405(2) is taken as the subsidiaries are not material to the financial statements.

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.

The company has no transactions within the scope of new or revised Standards or Interpretations which were effective or issued in the year.

At the date of authorisation of these financial statements, IAS 27 (Revised), *Separate Financial Statements*, IAS 28 (Revised), *Investments in Associates and Joint Ventures*, IFRS 9 (Revised), *Financial Instruments*, IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements*, IFRS 12, *Disclosures of Interests in Other Entities*, IFRS 13, *Fair Value Measurement*, Amendment to IAS 1 (Revised), *Presentation of Items of Other Comprehensive Income*, Amendment to IAS 32, *Disclosures: Offsetting Financial Assets and Financial Liabilities*, Amendment to IFRS 1 (Revised), *Government Loans*, Amendment to IFRS 7, *Offsetting Financial Assets and Financial Liabilities*, Amendments to IFRS 10, IFRS 11 and IFRS 12, *Transition Guidance*, Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised), *Investment Entities*, Annual Improvements to IFRSs 2009 - 2011 Cycle, which have not been applied in these financial statements were in issue but not yet effective, and in some cases had not yet been adopted by the EU.

On adoption of the amendment to IFRS 7 (effective 1 January 2013), there will be disclosure of the gross amounts of recognised financial assets and liabilities where they are offset and the net amount presented in the statement of financial position. The adoption of the other Standards and Amendments is not 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.

#### 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. 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 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, and movements in unrealised gains and losses on fair value investments, less investment expenses and charges. Dividends on equity securities are recorded as revenue on the ex-dividend date and interest income is recognised as it accrues.

Realised gains or losses represent the difference between the net sales proceeds and purchase price. Unrealised gains or losses represent the difference between the valuation of investments at the year end and their purchase price. The movement



## Notes to the Financial Statements

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in unrealised investment gains and losses therefore comprises the increase or decrease in the year in the value of investments held at the year end together with the reversal of previously recognised unrealised gains and losses on investments disposed of in the current year.

### Claims

General insurance claims incurred include all losses occurring during the year, an estimate of claims incurred but not reported, 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, 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.

#### (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 end, 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. No such provision was made at either year end.

### Reinsurance

The company has a reinsurance treaty with Ecclesiastical Insurance Office plc whereby all business accepted by the company 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.

### Financial instruments

IAS 39, *Financial Instruments: Measurement and Recognition*, 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 profit or loss are subsequently carried at fair value. Changes in fair value are included in the income statement in the period in which they arise. This category consists of financial investments.

All other financial assets and liabilities are held at amortised cost using the effective interest method, except for short term receivables and payables where the recognition of interest would be immaterial. Included in financial liabilities is permanent interest bearing capital.

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.

### 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.

## Notes to the Financial Statements

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### **Financial investments**

The company classifies its investments as financial assets designated at fair value through profit or loss, as they are managed, and their performance evaluated, on a fair value basis.

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 values less transaction costs. Investments classified at fair value through profit or loss 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.

### **Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, cash held by investment broker, 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, 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, but only 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.

### **Taxation**

Income tax comprises current tax and is recognised in the income statement. 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 laws which have been enacted or substantively enacted at the year end 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.

### **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.

### **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. There are various sources of uncertainty as to how much the company will ultimately pay with respect to such contracts. There is uncertainty as to the total number of claims made on each class of business, the amounts that such claims will be settled for and the timings of any payments.

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

### **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.

## Notes to the Financial Statements

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 within the UK.

### 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, and may also include cover for other costs or losses arising from 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. Most contracts are underwritten on a reinstatement basis. 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.

### 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. The concentration of insurance risk for the financial year in relation to the type of risk accepted is summarised below, with reference to gross written premiums:

	Type of risk			Total £000
	Property £000	Liability £000	Accident £000	
<b>Gross written premiums</b>				
2012	3,149	279	29	3,457
2011	3,099	260	29	3,388

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

### 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, 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

## Notes to the Financial Statements

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near the end of the financial year, then the uncertainty about ultimate claims cost in the financial statements is much higher because there may be 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.

### *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. Court decisions and developments in the legal and legislative frameworks impact on the uncertainty of ultimate settlement amounts and the length of the claims settlement process.

Claims that may arise from the liability portfolios include damage to third party property, physical injury, disease and psychological trauma. The company has a different exposure profile to most other commercial lines insurance companies as it has lower exposure to industrial risks, where uncertainty is higher.

Note 21 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 issues; and
- 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 reflected 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 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.

## Notes to the Financial Statements

### Categories of financial instruments

	Financial assets			Financial liabilities at amortised cost £000	Non-financial assets and liabilities £000	Total £000
	Designated at fair value £000	Loans and receivables £000	Cash and cash equivalents £000			
<b>At 31 December 2012</b>						
Financial investments	3,295	640	-	-	2	3,937
Other assets	-	331	-	-	2	333
Cash and cash equivalents	-	-	1,271	-	-	1,271
Permanent interest bearing capital	-	-	-	(148)	-	(148)
Other liabilities	-	-	-	(501)	(80)	(581)
<b>Total</b>	<b>3,295</b>	<b>971</b>	<b>1,271</b>	<b>(649)</b>	<b>(76)</b>	<b>4,812</b>
Net other						(86)
Net Assets						<b>4,726</b>
	£000	£000	£000	£000	£000	£000
<b>At 31 December 2011</b>						
Financial investments	2,957	720	-	-	2	3,679
Other assets	-	263	-	-	3	266
Cash and cash equivalents	-	-	1,028	-	-	1,028
Permanent interest bearing capital	-	-	-	(148)	-	(148)
Other liabilities	-	-	-	(313)	(64)	(377)
<b>Total</b>	<b>2,957</b>	<b>983</b>	<b>1,028</b>	<b>(461)</b>	<b>(59)</b>	<b>4,448</b>
Net other						(5)
Net Assets						<b>4,443</b>

### 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 instruments recognised by the company and designated at fair value are classified as level 1. Accordingly no analysis of fair value measurement bases is presented.

## Notes to the Financial Statements

### (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.

	Within 1 year £000	Maturing: Between 1 and 5 years £000	After 5 years £000	Total £000
<b>At 31 December 2012</b>				
Debt securities	-	789	314	1,103
Certificates of deposit	640	-	-	640
Other assets including insurance instalment receivables	219	-	-	219
Cash and cash equivalents	1,271	-	-	1,271
	<b>2,130</b>	<b>789</b>	<b>314</b>	<b>3,233</b>
	£000	£000	£000	£000
<b>At 31 December 2011</b>				
Debt securities	-	515	530	1,045
Certificates of deposit	720	-	-	720
Other assets including insurance instalment receivables	207	-	-	207
Cash and cash equivalents	1,028	-	-	1,028
	<b>1,955</b>	<b>515</b>	<b>530</b>	<b>3,000</b>

General business 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 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; and
- 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. No significant amounts are overdue, and none are impaired.

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 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 and where possible creditors are monitored via credit reference agencies to minimise the 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.

### (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 available cash balances, other readily marketable assets and access to short term bank funding.

## Notes to the Financial Statements

Financial liabilities of the company all mature within one year, with the exception of permanent interest bearing capital, which is irredeemable. An estimate of the timing of the net cash outflows resulting from insurance contracts is provided in note 21.

### (d) Equity price risk

Investments held by the company and classified at fair value through profit or loss are exposed to price risk. The risk is mitigated by holding a diversified portfolio of UK and overseas equities indirectly through investment in open-ended investment companies (OEICs).

### (e) Market risk sensitivity analysis

The sensitivity of profit to movements on market risk variables (comprising interest rate 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	
		2012 £000	2011 £000
Interest rate risk	-100 basis points	35	40
	+100 basis points	(34)	(37)
Equity price risk	-10%	(165)	(141)
	+10%	165	141

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

In preparing the above sensitivity analysis it has been assumed that the value of fixed income investments will vary inversely with changes in interest rates and that any change in profit is subject to a blended tax rate of 24.5% (2011: 26.5%).

### (f) Capital management

The company is subject to insurance solvency regulations, and capital is managed and evaluated on the basis of regulatory capital. 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; and
- to safeguard the company's ability to continue to meet stakeholders' expectations, in accordance with its Corporate Mission, Vision and Values.

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 2012, capital resources available to meet FSA requirements totalled £4,873,000 (2011: £4,591,000). The company has complied with all externally imposed capital requirements throughout the year.

### 5 Net insurance premium

	2012 £000	2011 £000
Gross written premiums	3,457	3,388
Change in the gross provision for unearned premiums	(29)	(50)
Gross earned premiums	3,428	3,338
Outward reinsurance premiums	(3,457)	(3,388)
Change in the provision for unearned premiums, reinsurers' share	29	50
Reinsurers' share of earned premiums	(3,428)	(3,338)
Premiums written, net of reinsurance	-	-
<b>Earned premiums, net of reinsurance</b>	<b>-</b>	<b>-</b>

### 6 Fee and commission income

	2012 £000	2011 £000
Reinsurance commissions and profit commission	145	433
Other commissions	4	6
	<b>149</b>	<b>439</b>

**Notes to the Financial Statements**

**7 Net investment return**

	<b>2012</b>	2011
	<b>£000</b>	£000
<i>Income from financial assets at fair value through the income statement:</i>		
- equity income	<b>85</b>	54
- interest income	<b>83</b>	73
<i>Income from financial assets not at fair value through the income statement:</i>		
- cash and cash equivalents income	<b>2</b>	2
- other income received	<b>30</b>	29
<b>Investment income</b>	<b>200</b>	158
Fair value gains/(losses) on investments at fair value through the income statement	<b>219</b>	(98)
Investment expenses	<b>(1)</b>	(2)
<b>Net investment return</b>	<b>418</b>	58

**8 Claims and change in insurance liabilities and reinsurance recoveries**

	<b>2012</b>	2011
	<b>£000</b>	£000
Gross claims paid	<b>(1,254)</b>	(2,284)
Gross change in the provision for claims	<b>69</b>	836
Claims and change in insurance liabilities	<b>(1,185)</b>	(1,448)
Reinsurers' share of claims paid	<b>1,252</b>	2,283
Reinsurers' share of change in the provision for claims	<b>(85)</b>	(827)
Reinsurance recoveries	<b>1,167</b>	1,456
<b>Claims and change in insurance liabilities, net of reinsurance</b>	<b>(18)</b>	8

**9 Fees, commissions and other acquisition costs**

	<b>2012</b>	2011
	<b>£000</b>	£000
Commission paid	<b>(21)</b>	(34)

**10 Operating profit**

	<b>2012</b>	2011
	<b>£000</b>	£000
<b>Operating profit has been arrived at after charging:</b>		
Directors' fees and expenses	<b>(42)</b>	(34)

**11 Auditor's Remuneration**

	<b>2012</b>	2011
	<b>£000</b>	£000
Fees payable to the company's auditor for the audit of the company's accounts	<b>(10)</b>	(10)
Audit related assurance services	<b>(8)</b>	(6)

**12 Employee information**

As all management services are provided by Ecclesiastical Insurance Office plc under the terms of the Joint Administration Agreement, the company had no employees in either the current or prior year.

**13 Finance costs**

	<b>2012</b>	2011
	<b>£000</b>	£000
Interest payable on permanent interest bearing capital	<b>(7)</b>	(7)

**14 Charitable grants**

	<b>2012</b>	2011
	<b>£000</b>	£000
Charitable grants paid or accrued	<b>(100)</b>	(78)



## Notes to the Financial Statements

### 15 Taxation

	<b>2012</b>	2011
	<b>£000</b>	£000
UK corporation tax for the current financial year	<u>(74)</u>	<u>(6)</u>

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

	<b>2012</b>	2011
	<b>£000</b>	£000
Profit before tax	<u>357</u>	<u>314</u>
Tax due calculated at the UK standard rate for the year of 24.5% (2011: 26.5%).	<b>(87)</b>	(83)
The change in tax rate will have no material effect on the tax charge.		
<i>Factors affecting charge for the period:</i>		
Dividends from UK companies	<b>2</b>	6
Marginal relief	<b>11</b>	2
Relieved non trade charges	<b>2</b>	(3)
Expenses not deductible for tax purposes	<b>(2)</b>	(3)
Losses utilised	<u>-</u>	<u>75</u>
<b>Tax expense</b>	<b><u>(74)</u></b>	<b><u>(6)</u></b>

A deferred tax asset in respect of £25,000 accrued gift aid (2011: £10,000) has not been recognised as the volatility of the insurance business and investment markets may lead to insufficient profits arising next year to recover it. The relief for gift aid cannot be carried forward to recover in future years.

A change in the UK standard rate of corporation tax from 26% to 24% became effective from 1 April 2012. Current tax has been provided at the blended rate of 24.5%. A further 1% reduction in the rate of corporation tax, effective from 1 April 2013, was substantively enacted on 3 July 2012. The announcement of a planned reduction of 2% (such that the standard rate reaches 21% from April 2014) had not been substantively enacted at the balance sheet date.

### 16 Financial investments

	<b>2012</b>	2011
	<b>£000</b>	£000
<i>Financial investments at fair value through the income statement</i>		
Equity securities:		
- listed	<b>2,192</b>	1,912
Debt securities:		
- government bonds	<b>26</b>	27
- listed	<b>1,077</b>	1,018
	<u><b>3,295</b></u>	<u>2,957</u>
<i>Loans and receivables</i>		
Certificates of deposit	<u><b>640</b></u>	<u>720</u>
	<b>640</b>	720
<i>Investments in group undertakings</i>		
Shares in subsidiary undertakings	<u><b>2</b></u>	<u>2</u>
	<b>2</b>	2
Total financial investments	<u><b>3,937</b></u>	<u>3,679</u>

All equity and debt securities are designated by the company to be measured at fair value through the income statement. £640,000 of financial investments mature within 1 year (2011: £720,000).

## Notes to the Financial Statements

### 17 Other assets

	<b>2012</b>	2011
	<b>£000</b>	£000
Receivables arising from insurance and reinsurance contracts:		
- due from contract holders	<b>284</b>	207
- due from agents, brokers and intermediaries	<b>20</b>	24
Other receivables:		
- accrued interest	<b>27</b>	32
- other prepayments and accrued income	<b>2</b>	3
	<b>333</b>	266

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

At 31 December 2012, £7,251 (2011: £7,302) of receivables were past due and not impaired. No impairment charges have been recognised in the current or prior year.

### 18 Cash and cash equivalents

	<b>2012</b>	2011
	<b>£000</b>	£000
Cash held at bank	<b>1,170</b>	950
Cash held at investment broker	<b>101</b>	78
	<b>1,271</b>	1,028

The above carrying amounts are a reasonable approximation of fair value.

### 19 Statement of changes in equity

The general reserve is the amount on winding up that would be allocated to the ultimate stakeholders of the company.

The company does not have any equity shareholders. Both the ordinary and the preference shares are entitled to fixed percentage dividends on the amounts paid up on the shares, but are not entitled to participate further in the profits of the company, whether as a going concern or on winding up.

The Directors may make grants out of any surplus profits of the company after payment of expenses and dividends and after setting monies aside to any reserve fund to or for the benefit of any ministers, churches or societies of the Baptist denomination; any individual who is a Baptist and whose prime vision and ministry is Christian evangelistic work; and the Council of the Baptist Union for it to apply in such a manner as it may determine.

### 20 Permanent interest bearing capital

	<b>2012</b>	2011
	<b>£000</b>	£000
Authorised share capital:		
2,000 4% cumulative preference shares of £5 each	<b>10</b>	10
28,300 5% cumulative ordinary shares of £5 each	<b>142</b>	142
	<b>152</b>	152
Called up, allotted and fully paid share capital:		
1,286 4% cumulative preference shares of £5 each	<b>6</b>	6
28,284 5% cumulative ordinary shares of £5 each	<b>142</b>	142
	<b>148</b>	148

The company's preference and ordinary shares are entitled to annual dividends of 4% and 5% respectively on the amount paid up. The company has an obligation at the year end date in relation to the dividends payable on the shares and, because of this, the company is required to account for the whole of its called up share capital as 'permanent interest bearing capital' in the statement of financial position under IAS 32, *Financial Instruments: Presentation*.

On winding up, shareholders are entitled only to the amount paid up on shares, and preference shares take priority over ordinary shares on winding up.

Preference and ordinary shares are not redeemable and carry equal voting rights.

## Notes to the Financial Statements

### 21 Insurance liabilities and reinsurance assets

#### Claims outstanding

	2012	2011
	£000	£000
Gross		
Claims outstanding	3,820	3,889
Unearned premiums	1,947	1,918
Total gross insurance liabilities	<u>5,767</u>	<u>5,807</u>
<b>Recoverable from reinsurers</b>		
Claims outstanding	3,799	3,884
Unearned premiums	1,947	1,918
Total reinsurers' share of insurance liabilities	<u>5,746</u>	<u>5,802</u>
<b>Net</b>		
Claims outstanding	21	5
Unearned premiums	-	-
Total net insurance liabilities	<u>21</u>	<u>5</u>
<b>Gross insurance liabilities</b>		
Current	2,711	2,865
Non-current	3,056	2,942
	<u>5,767</u>	<u>5,807</u>
<b>Reinsurance assets</b>		
Current	2,711	2,865
Non-current	3,035	2,937
	<u>5,746</u>	<u>5,802</u>

### 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 the chain ladder method.

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.

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 uncertainty margins

To reflect the uncertain nature of the outcome of the ultimate settlement cost of claims, and to ensure uncertainty provisions are made, an addition is made to the most likely outcome. The addition for uncertainty 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 provide an equivalent probability of sufficiency. 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

## Notes to the Financial Statements

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.

### (v) Change in assumptions

During the year a full review of the latent claims modelling methodology was carried out. A more sophisticated and granular approach has been adopted, together with a review of all the existing key assumptions.

### (vi) Sensitivity of results

The ultimate amount of claims settlement is uncertain and the company's aim is to reserve to at least the 75th percentile confidence level. The following table illustrates the sensitivity to changes in the level of claims in the principal segments of the business.

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 pre-tax loss or profit will be realised:

	2012		2011	
	Gross £000	Net £000	Gross £000	Net £000
Liability	195	2	102	-
Property	187	-	287	-

### (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 across all territories. Net liability for the periods covered in the table is zero as all business in these periods is 100% reinsured. A net liability remains in respect of earlier periods.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Estimate of ultimate claims:											
At end of year	952	1,144	876	1,389	1,954	4,626	3,551	2,129	1,414	1,227	
One year later	688	1,019	712	1,220	1,479	2,860	3,017	2,099	1,071		
Two years later	682	982	716	959	1,363	2,802	2,988	2,039			
Three years later	682	900	614	907	1,394	2,741	3,185				
Four years later	593	990	648	918	1,396	2,005					
Five years later	599	855	648	913	1,409						
Six years later	587	882	644	930							
Seven years later	585	878	649								
Eight years later	582	892									
Nine years later	602										
Current estimate of ultimate claims	602	892	649	930	1,409	2,005	3,185	2,039	1,071	1,227	14,009
Cumulative payments to date	(566)	(863)	(629)	(900)	(1,377)	(1,976)	(1,905)	(1,863)	(828)	(463)	(11,370)
Outstanding liability	36	29	20	30	32	29	1,280	176	243	764	2,639
Liability in respect of earlier years											1,181
Total gross liability included in insurance liabilities in the statement of financial position											3,820
Reinsurers' share of contract provisions											(3,799)
Total net liability											21

## Notes to the Financial Statements

### (viii) Movements in insurance liabilities and reinsurance assets

	Gross £000	Reinsurance £000	Net £000
<b>Claims outstanding</b>			
At 1 January 2012	3,889	(3,884)	5
Cash (paid)/received for prior year claims settled in the year	(791)	789	(2)
Change in prior year liabilities/reinsurance assets	(42)	60	18
Prior year liabilities/reinsurance assets at 31 December 2012	<u>3,056</u>	<u>(3,035)</u>	<u>21</u>
Current year claims incurred	1,227	(1,227)	-
Cash (paid)/received for current year claims settled in the year	(463)	463	-
Current year liabilities/reinsurance assets at 31 December 2012	<u>764</u>	<u>(764)</u>	<u>-</u>
At 31 December 2012	<u><b>3,820</b></u>	<u><b>(3,799)</b></u>	<u><b>21</b></u>
<b>Provision for unearned premiums</b>			
At 1 January 2012	1,918	(1,918)	-
Movement in the year	29	(29)	-
At 31 December 2012	<u>1,947</u>	<u>(1,947)</u>	<u>-</u>
<b>Claims outstanding</b>			
At 1 January 2011	4,725	(4,712)	13
Cash (paid)/received for prior year claims settled in the year	(1,817)	1,817	-
Change in prior year liabilities/reinsurance assets	34	(42)	(8)
Prior year liabilities/reinsurance assets at 31 December 2011	<u>2,942</u>	<u>(2,937)</u>	<u>5</u>
Current year claims incurred	1,414	(1,414)	-
Cash (paid)/received for current year claims settled in the year	(467)	467	-
Current year liabilities/reinsurance assets at 31 December 2011	<u>947</u>	<u>(947)</u>	<u>-</u>
At 31 December 2011	<u>3,889</u>	<u>(3,884)</u>	<u>5</u>
<b>Provision for unearned premiums</b>			
At 1 January 2011	1,868	(1,868)	-
Movement in the year	50	(50)	-
At 31 December 2011	<u>1,918</u>	<u>(1,918)</u>	<u>-</u>

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

### 22 Other liabilities

	2012 £000	2011 £000
Creditors arising out of direct insurance operations	3	4
Creditors arising out of reinsurance operations	434	230
Other creditors	93	94
Amounts owed to related parties	2	2
Accruals and deferred income	49	47
	<u>581</u>	<u>377</u>
Current	579	375
Non-current	2	2

The above carrying amounts are a reasonable approximation of fair value.

## Notes to the Financial Statements

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### 23 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.

During the year the company ceded premiums net of claims paid and commissions to the value of £2,199,000 (2011: £1,048,000) to Ecclesiastical Insurance Office plc, which also bore expenses of the company's business of £685,000 (2011: £686,000). The reinsurer's share of technical provisions due from Ecclesiastical Insurance Office plc as at 31 December 2012 is £5,349,000 (2011: £5,493,000), which consists of £1,936,000 (2011: £1,908,000) of unearned premium and £3,413,000 (2011: £3,585,000) of outstanding claims. At 31 December 2012, £446,000 (2011: £242,000) was due to Ecclesiastical Insurance Office plc.

Recipients of grants are proposed by the grants committee, and ratified by the board. During the year a grant of £12,000 (2011: £12,500) was made to The Baptist Union of Great Britain, the treasurer of which is a director of the company.

Transactions and services with related parties are made on commercial terms.

### 24 Subsidiary undertakings

The company's interest in subsidiary undertakings at 31 December 2012 is as follows:

	<b>Share Capital</b>	<b>Holding</b>
Baptist Support Services Limited	Ordinary shares	99.8%
Baptist Insurance Services Limited	Ordinary shares	99.8%

Both subsidiaries are incorporated in England and Wales, are dormant, having not traded since incorporation, and are not material to the company's accounts.

