



**BaptistInsurance**

Experts in home and church insurance

# Annual Report

2014



# THE BAPTIST INSURANCE COMPANY PLC

**Company Registration Number 00083597**

**REPORT AND ACCOUNTS 31 DECEMBER 2014**

# The Baptist Insurance Company PLC

## Report and Accounts 31 December 2014

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# The Baptist Insurance Company PLC

## Officers and Professional Advisers

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### Directors

M. N. Hayes BSc, FI Chem. E, FCII *Chairman*  
M. R. Buttrick FCCA, FCT *Deputy Chairman*  
M. G. Angell ACII (*Appointed 12 September 2014*)  
M. A. Broad MBE  
D. E. Nixon FCCA  
T. J. Rose MBA, C Dir  
Revd. P. J. Wortley BA, BD

### Company Secretary

Mrs R. J. Hall FCIS

### General Manager

M. G. Angell ACII

### Auditor

Deloitte LLP,  
Bristol

### Registered Office

Beaufort House,  
Brunswick Road,  
Gloucester GL1 1JZ

### Company Registration Number

00083597

# The Baptist Insurance Company PLC

## Directors' Biographies

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

Born 1946

Appointed to the board in 2006. Managing director of a business and financial consultancy. Formerly a director of Zurich Commercial Business UK. Qualified engineer and chartered insurer. Non executive director of a niche Christian Bank, a renewable energy business, two property management companies and chairman of Langley House Trust, a Christian charity. Member of Chipping Campden Baptist Church.

### **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. Non executive director of a Christian bank, 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. G. Angell ACII**

Born 1958

Appointed to the board in 2014. Qualified Chartered Insurer, General Manager of Baptist Insurance Company, Church Operations Director of Ecclesiastical Insurance Office plc and Director of Methodist Insurance plc. Chairman of the Gloucestershire Lawn Tennis Association and a councillor of the national LTA. Also chairman of a national league rugby club, Old Patesians RFC and active member of his local 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. Director of the Baptist Union Corporation Limited. Director of the Baptist Assembly. Treasurer of Bristol Baptist College. Trustee of the Bristol, Clifton and West of England Zoological Society and trustee and co-founder of ABLAZE. Treasurer and Deacon of Keynsham 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. Formerly treasurer of the Southern Counties Baptist Association. Member and treasurer of Wokingham Baptist Church.

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

Born 1959

Appointed to the board in 2002. Managing director of a corporate finance boutique. Formerly director of a major City broking house specialising in wholesale financial instruments. A qualified chartered director and non executive director of the Bible Society Resources Ltd. Member of Colchester Baptist Church.

### **Rev. 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. Formerly secretary of London Baptist Association and London Baptist Property Board Limited. Member of Southcourt Baptist Church, Aylesbury.

# The Baptist Insurance Company PLC

## Chairman's Statement

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I am delighted to be able to report a substantial pre-tax result for the year ended 31 December 2014 arising from another encouraging underwriting result complemented by an investment result which although below last year's performance still represented a very solid out-turn.

This further improvement continues to build on the recovery which started during 2009 and enables us at long last to again take a more encouraging view of our Grant support to those hardworking pioneers for the Gospel in our Baptist family. We have maintained our Grant support in 2014 at a level of £200,000 and hope to increase this in future years.

I have previously reported on the challenges presented by the new Solvency II requirements for General Insurers which were originally planned to be implemented from January 2013 onwards. I can now confirm that the current implementation date remains as planned for 1 January 2016. We are in full preparation for this timescale implementing a detailed project plan incorporating all the work streams necessary to comply with the new requirements. Under the new regime we expect the minimum capital requirements for smaller General Insurers to be confirmed at Euro 3.7m and with the capital and investment realignment we have made over the past few years are in a very healthy position to be able to comply with this requirement. We will still, however, retain adequate levels of surplus capital as it is possible this minimum may increase over the next few years as Solvency II becomes established as the working capital requirement.

I would like to pay tribute to the untiring work of the Directors who serve the company with considerable skill and capability in a variety of disciplines. This year has seen an enormous increase in workload for the Directors who serve sacrificially to ensure that the Company is well positioned to enjoy a secure capital base whilst fulfilling its role as the providers of insurance expertise to the Baptist community.

During the year our Administrative Director, John Coates, retired and was replaced by Michael Angell, who brings a wealth of church underwriting expertise to the company – John acted as General Manager for over 5 years and Director since 2012, he brought a distinctive flair to the role with his particular blend of humour and insurance skill which was well appreciated around the Board table.

Returning to the 2014 year's performance, written premium increased by 1.3%, slightly better than 2013 and although small 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 majority of our churches have entered into long term agreements providing stability to their costs and also security of support from the company.

The underwriting performance was very encouraging, producing a positive result which was without significant prior year recoveries thereby representing a true underwriting performance. There were a number of significant losses including a very unfortunate fatality at one church which was undergoing refurbishment. The adverse weather conditions at the start of the year contributed to a poor performance at the half year but a much improved second half saw the impressive full year result indicated above.

The investment markets showed considerable volatility throughout the year and the decision taken several years ago to transfer a significant proportion of our investments into fixed interest instruments once again had the benefit of reducing volatility and providing an acceptable result. We increased slightly our holding of UK, European and Global equities to be ready to benefit from any anticipated increase in growth in the Global economies with the dramatic reduction in oil prices experienced in the latter part of the year.

This shift in investment emphasis again produced the impact intended and we have experienced balanced gains in the portfolio. We continue to monitor the spread of investments on a regular basis with considerable debate within the Investment Committee. Our firm belief is that we have refined our investment base into an optimum mix of equities and fixed interest instruments but this is tested on a regular basis to avoid any complacency. This mix is designed to provide appropriate balanced returns to the company to support the underwriting performance and contribute to the overall results.

2014 was very much a year of financial consolidation building on the outstanding results of 2013 and maintaining a net underwriting performance in line with the typical performance over the past 5 years.

But financial results, important though they are, are far from everything - it is a source of great encouragement that we are increasingly being seen as a centre of excellence for advice and risk support to our insured churches, manses and individuals.

# The Baptist Insurance Company PLC

## Chairman's Statement

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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 are a tribute to the skills and capabilities of the professional survey team who travel widely throughout the year supporting church teams in their safety and property management responsibilities.

During the year we again extended our sales initiative for new household and manse business and can report that this take up has been reasonable although still not at the levels we would like to see.

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.

We remain the 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 full time specialist staff working in the business have continued to provide outstanding support during what has been a period of continued financial and environmental challenge and we extend our grateful thanks to all the team for their unstinting efforts over this period.

We would also like to express our thanks to the management team after a change in 2012 who have successfully delivered an excellent renewal programme throughout 2013 and 2014.

For those readers who prefer to study a more detailed breakdown of our financial performance for the year this is provided in the Strategic Report on page 6 of these financial statements.

### Conclusion

We are grateful to God for another year of success in the business and look to build further on this in 2015. We continue with our marketing initiatives, product launch and further development in our growth and capital strategies and trust to be able to report further progress throughout the year as our strategic work unfolds.

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 Baptist Union of Great Britain, Baptist Union of Scotland and Baptist Missionary Society to further this ambition.

Our key desire is to fully support the Baptist community with their insurance needs, and in parallel through our Grant giving programme, spearhead the use of Kingdom finance into areas of Gospel deprivation in order to see Jesus accepted as Lord in those areas.

M. N. Hayes *Chairman*  
On behalf of the directors  
12 March 2015

# The Baptist Insurance Company PLC

## Strategic Report

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The directors present their strategic report for the year ended 31 December 2014.

### **Objective and strategy**

The Baptist Insurance Company PLC is a public limited company incorporated and domiciled in England, authorised and regulated by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA).

The principal activity of the company is the transaction of fire, accident and ancillary liability insurance. We provide insurance and risk management advice for churches, as well as offering home insurance for Baptist Ministers, church volunteers and church members.

The vision of the company is to be the first choice insurer within the Baptist family. The mission is to run a successful business with the highest standards of integrity and helping to create safe environments for worship, witness and service. Success includes being able to generate distributable profits that may be used to strengthen the company's capital position and to reinvest in the Baptist community.

All risks undertaken by the company are reinsured with Ecclesiastical Insurance Office plc, except eligible terrorism risks which are reinsured with Pool Re.

### **Review of business performance**

The results of the company for the year are shown in the statement of profit or loss on page 11. Key performance indicators are included below.

#### **Premium growth**

Gross written premiums rose to £3,519,000 (2013: £3,475,000) representing an increase of 1.3% on the previous year. Over the past five years premiums show compound growth of 1.8% per annum. Premium growth can be attributed to new business activity especially in the faith and commercial markets coupled with normal increases in indexation due to inflationary factors.

#### **Claims ratio**

Our claims ratio (incurred claims to earned premiums) of 46.7% (2013: 40.6%) shows a 6 point increase on the previous year. Claims performance has been affected by weather events at the start of the year, a higher average cost of property claims and a large liability claim during the year.

#### **Profit commission**

The reinsurance treaty with Ecclesiastical Insurance Office plc continues. The amount receivable for the current year based on the sharing of the net underwriting result was £324,000 (2013: £538,000). The overall claims experience has seen a large liability claim and higher levels of property claims with several large losses reported which has resulted in lower profit commission compared with the prior year.

#### **Investment return**

Our underlying investments delivered a positive return, helped by additional investment in the portfolio. We continue to monitor and review the investment strategy to mitigate the risk of future losses. The net investment return was £371,000 (2013: £421,000) as the stock market fell during 2014.

#### **Charitable grants**

The aim of the company and the directors continues to be to support the wider Baptist family. During 2014 grants of £200,000 (2013: £200,000) were paid or accrued.

#### **Equity and reserves**

The factors outlined above have all had an influence on results for the year. Profit before tax decreased to £397,000 (2013: £625,000) and after the impact of tax, this has increased reserves by £318,000 (2013: £469,000).

#### **PRA Capital and MCR cover**

Regulatory capital, as published in the company's PRA return, must be in excess of the Minimum Capital Requirement (MCR), which is a statistical measure based on premiums and claims, or €3.7m whichever is the higher. The company sets internal capital standards above the PRA's minimum requirement. Retained capital covers this PRA requirement by 195% (2013: 170%).

# The Baptist Insurance Company PLC

## Strategic Report

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### **Principal risks and uncertainties**

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.

By order of the board

Mrs R. J. Hall  
Secretary  
12 March 2015

# The Baptist Insurance Company PLC

## Directors' Report

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The directors present their annual report and financial statements for the year ended 31 December 2014.

### Future prospects

It is anticipated that the activities of the company will remain unchanged for the foreseeable future.

### Going concern

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. Therefore, except for investment, credit and counterparty risk, and the adverse development of certain pre - 1998 insurance risks, 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.

### 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 2014, absorbing the sum of £7,328 (2013: £7,328), be confirmed. This dividend is treated as interest payable on permanent interest bearing capital in the financial statements.

### Political donations

The company did not make any contributions for political purposes in the current or prior year.

### Directors

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

Rev. P. J. Wortley retires by rotation and, being eligible, has offered himself for re-election.

Mr M. G. Angell was appointed as a director to the board on 12 September 2014.

Mr J. M. Coates resigned from the board on 12 September 2014.

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' 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 (EU). 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# The Baptist Insurance Company PLC

## Directors' Report

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### **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 they 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  
12 March 2015

# The Baptist Insurance Company PLC

## 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 2014 which comprise the Statement of Profit or Loss, 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2014 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 Strategic Report and 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 FCA (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Bristol, United Kingdom  
12 March 2015

# The Baptist Insurance Company PLC

## Statement of Profit or Loss

for the year ended 31 December 2014

	Notes	2014 £000	2013 £000
<b>Revenue</b>			
Gross written premiums	5	3,519	3,475
Outward reinsurance premiums	5	(3,519)	(3,475)
Net change in provision for unearned premiums	5	-	-
<b>Net earned premiums</b>	5	-	-
Fee and commission income	6	348	562
Net investment return	7	371	421
<b>Total revenue</b>		<b>719</b>	<b>983</b>
<b>Expenses</b>			
Claims and change in insurance liabilities	8	(1,634)	(1,411)
Reinsurance recoveries	8	1,622	1,350
Fees, commissions and other acquisition costs	9	(20)	(20)
Other operating and administrative expenses		(83)	(70)
<b>Total operating expenses</b>		<b>(115)</b>	<b>(151)</b>
<b>Operating profit</b>	10	<b>604</b>	832
Finance costs	13	(7)	(7)
Charitable grants	14	(200)	(200)
<b>Profit before tax</b>		<b>397</b>	625
Taxation	15	(79)	(156)
<b>Profit attributable to equity holders</b>		<b>318</b>	469

All 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 statement of profit or loss. Accordingly, no separate statement of comprehensive income has been presented.

# The Baptist Insurance Company PLC

## Statement of Financial Position

at 31 December 2014

	Notes	2014 £000	2013 £000
<b>Assets</b>			
Financial investments	16	5,211	4,479
Reinsurers' share of contract provisions	21	5,500	5,389
Other assets	17	354	337
Cash and cash equivalents	18	871	1,101
<b>Total assets</b>		<b>11,936</b>	<b>11,306</b>
<b>Liabilities</b>			
Permanent interest bearing capital	20	148	148
Insurance contract provisions	21	5,587	5,469
Current tax liabilities		64	145
Other liabilities	22	624	349
<b>Total liabilities</b>		<b>6,423</b>	<b>6,111</b>
<b>Net Assets</b>		<b>5,513</b>	<b>5,195</b>
<b>Equity</b>			
General reserve	19	117	286
Retained earnings		5,396	4,909
<b>Total equity</b>		<b>5,513</b>	<b>5,195</b>

The financial statements of The Baptist Insurance Company PLC, company registration number 00083597, on pages 11 to 31 were approved by the board of directors and authorised for issue on 12 March 2015 and signed on their behalf by:

M. N. Hayes *Chairman*

M. R. Buttrick *Deputy Chairman*

# The Baptist Insurance Company PLC

## Statement of Changes in Equity

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	Notes	<b>General reserve £000</b>	<b>Retained earnings £000</b>	<b>Total £000</b>
Balance at 1 January 2013		394	4,332	4,726
Transfer between reserves		(108)	108	-
Profit for the period		-	469	469
Balance at 31 December 2013		<u>286</u>	<u>4,909</u>	<u>5,195</u>
Balance at 1 January 2014		<b>286</b>	<b>4,909</b>	<b>5,195</b>
Transfer between reserves		<b>(169)</b>	<b>169</b>	-
Profit for the period		-	<b>318</b>	<b>318</b>
Balance at 31 December 2014	19	<u><b>117</b></u>	<u><b>5,396</b></u>	<u><b>5,513</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

for the year ended 31 December 2014

	<b>2014</b>	2013
	<b>£000</b>	£000
<b>Profit before tax</b>	<b>397</b>	625
<i>Adjustments for:</i>		
Net fair value gains on financial investments	<b>(149)</b>	(226)
Dividend and interest income	<b>(224)</b>	(197)
Finance expense	<b>7</b>	7
<i>Changes in operating assets and liabilities:</i>		
Net increase/(decrease) in insurance contract provisions	<b>118</b>	(298)
Net (increase)/decrease in reinsurers' share of contract provisions	<b>(111)</b>	357
Net increase in other assets	<b>(17)</b>	(11)
Net increase/(decrease) in other liabilities	<b>275</b>	(232)
<b>Cash generated by operations</b>	<b>296</b>	25
Dividends received	<b>132</b>	89
Interest received	<b>92</b>	115
Interest paid	<b>(7)</b>	(7)
Tax paid	<b>(160)</b>	(76)
<b>Net cash from operating activities</b>	<b>353</b>	146
<b>Cash flows from investing activities</b>		
Sales of financial investments	<b>116</b>	677
Purchases of financial investments	<b>(699)</b>	(993)
<b>Net cash used by investing activities</b>	<b>(583)</b>	(316)
<b>Net decrease in cash and cash equivalents</b>	<b>(230)</b>	(170)
Cash and cash equivalents at beginning of year	<b>1,101</b>	1,271
<b>Cash and cash equivalents at end of year</b>	<b>871</b>	1,101

# The Baptist Insurance Company PLC

## Notes to the Financial Statements

### 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 in accordance with IFRSs as issued by the International Accounting Standards Board and endorsed by the EU. The accounting policies set out below have been applied. The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments.

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. Therefore, except for investment, credit and counterparty risk, and the adverse development of certain pre - 1998 insurance risks, 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.

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.

#### New and revised standards

The Standards adopted in the current year are either outside the scope of company transactions or do not significantly impact the company.

The following Standards were in issue but not yet effective and have not been applied in these financial statements.

Accounting Standard	Key requirements	Expected impact on financial statements	Effective date
IFRS 9, <i>Financial Instruments</i>	The final phase of IFRS 9 was issued in the year and the Standard has now been issued in full. It provides a new model for the classification and measurement of financial instruments, a single, forward-looking 'expected loss' impairment model and a reformed approach to hedge accounting.	It is expected that equity instruments will continue to be measured at fair value through profit or loss. There is a possibility that the measurement of debt instruments will change to amortised cost or fair value through other comprehensive income, although this is being assessed and depends on the conclusion of IFRS 4 Phase II, the IASB's ongoing insurance accounting project.	Annual periods beginning on or after 1 January 2018
IFRS 15, <i>Revenue from Contracts with Customers</i>	Establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.	Insurance contracts are outside the scope of the Standard. The impact on fee and commission income is being assessed. There is the possibility of commission income being recognised earlier if a contract is approved and consideration is probable. Variable consideration will be recognised earlier if receipt is considered highly probable.	Annual periods beginning on or after 1 January 2017

The other Standards in issue but not yet effective are not expected to significantly impact the company.

# The Baptist Insurance Company PLC

## Notes to the Financial Statements

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### 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 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, 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 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. 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 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.

# The Baptist Insurance Company PLC

## Notes to the Financial Statements

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### 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.

### 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 there is a possible future obligation as a result of a past event, or if there is a present obligation but either an outflow of resources is not probable or the amount cannot be reliably estimated.

# The Baptist Insurance Company PLC

## Notes to the Financial Statements

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### **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.

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.

## Notes to the Financial Statements

### 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>				
<b>2014</b>	<b>3,189</b>	<b>302</b>	<b>28</b>	<b>3,519</b>
2013	3,154	293	28	3,475

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 near the end of the financial year, then the uncertainty about ultimate claims cost in the financial statements is much higher because there is insufficient time for adequate data to be received to assess the final cost of claims.

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

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

# The Baptist Insurance Company PLC

## Notes to the Financial Statements

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### *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/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 credit risk, liquidity risk, equity price risk and interest rate 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.

# The Baptist Insurance Company PLC

## Notes to the Financial Statements

### Categories of financial instruments

	Financial assets					Total
	Designated at fair value	Loans and receivables	Cash and cash equivalents	Financial liabilities at amortised cost	Non-financial assets and liabilities	
<b>At 31 December 2014</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Financial investments	5,209	-	-	-	2	5,211
Other assets	-	352	-	-	2	354
Cash and cash equivalents	-	-	871	-	-	871
Permanent interest bearing capital	-	-	-	(148)	-	(148)
Other liabilities	-	-	-	(406)	(218)	(624)
<b>Total</b>	<b>5,209</b>	<b>352</b>	<b>871</b>	<b>(554)</b>	<b>(214)</b>	<b>5,664</b>
Net other						(151)
Net Assets						<b>5,513</b>
<b>At 31 December 2013</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Financial investments	4,477	-	-	-	2	4,479
Other assets	-	334	-	-	3	337
Cash and cash equivalents	-	-	1,101	-	-	1,101
Permanent interest bearing capital	-	-	-	(148)	-	(148)
Other liabilities	-	-	-	(170)	(179)	(349)
<b>Total</b>	<b>4,477</b>	<b>334</b>	<b>1,101</b>	<b>(318)</b>	<b>(174)</b>	<b>5,420</b>
Net other						(225)
Net Assets						<b>5,195</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 in the current and prior year are classified as level 1. Accordingly no analysis of fair value measurement bases is presented.

# The Baptist Insurance Company PLC

## 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.

	<b>Within 1 year £000</b>	<b>Maturing: Between 1 and 5 years £000</b>	<b>After 5 years £000</b>	<b>Total £000</b>
<b>At 31 December 2014</b>				
Debt securities	-	753	143	896
Other assets including insurance instalment receivables	250	-	-	250
Cash and cash equivalents	871	-	-	871
	<b>1,121</b>	<b>753</b>	<b>143</b>	<b>2,017</b>
<b>At 31 December 2013</b>				
Debt securities	104	773	147	1,024
Other assets including insurance instalment receivables	210	-	-	210
Cash and cash equivalents	1,101	-	-	1,101
	<b>1,415</b>	<b>773</b>	<b>147</b>	<b>2,335</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.

# The Baptist Insurance Company PLC

## Notes to the Financial Statements

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### (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.

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	
		2014 £000	2013 £000
Interest rate risk	-100 basis points	17	24
	+100 basis points	(16)	(23)
Equity price risk	-10%	(339)	(265)
	+10%	339	265

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 21.50% (2013: 23.25%).

### (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 PRA and FCA. Regulatory capital, as published in the company's PRA 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 PRA reviews and may amend by issuing Individual Capital Guidance (ICG). The company sets internal capital standards above the PRA's minimum requirement.

At 31 December 2014, capital resources available to meet PRA requirements totalled £5,661,000 (2013: £5,343,000). The company has complied with all externally imposed capital requirements throughout the year.

# The Baptist Insurance Company PLC

## Notes to the Financial Statements

<b>5 Net insurance premium revenue</b>	<b>2014</b>	2013
	<b>£000</b>	£000
Gross written premiums	3,519	3,475
Change in the gross provision for unearned premiums	(22)	(1)
Gross earned premiums	<u>3,497</u>	<u>3,474</u>
Outward reinsurance premiums	(3,519)	(3,475)
Change in the provision for unearned premiums, reinsurers' share	22	1
Reinsurers' share of earned premiums	<u>(3,497)</u>	<u>(3,474)</u>
Premiums written, net of reinsurance	-	-
<b>Earned premiums, net of reinsurance</b>	<u>-</u>	<u>-</u>
<b>6 Fee and commission income</b>	<b>2014</b>	2013
	<b>£000</b>	£000
Reinsurance commissions and profit commission	344	558
Other commissions	4	4
	<u>348</u>	<u>562</u>
<b>7 Net investment return</b>	<b>2014</b>	2013
	<b>£000</b>	£000
<i>Income from financial assets at fair value through the income statement:</i>		
- equity income	132	89
- interest income	61	76
<i>Income from financial assets not at fair value through the income statement:</i>		
- cash and cash equivalents income	2	2
- other income received	29	30
<b>Investment income</b>	<u>224</u>	<u>197</u>
Fair value gains on investments at fair value through the income statement	149	226
Investment expenses	(2)	(2)
<b>Net investment return</b>	<u>371</u>	<u>421</u>
<b>8 Claims and change in insurance liabilities and reinsurance recoveries</b>	<b>2014</b>	2013
	<b>£000</b>	£000
Gross claims paid	(1,538)	(1,711)
Gross change in the provision for claims	(96)	300
Claims and change in insurance liabilities	<u>(1,634)</u>	<u>(1,411)</u>
Reinsurers' share of claims paid	1,533	1,709
Reinsurers' share of change in the provision for claims	89	(359)
Reinsurance recoveries	<u>1,622</u>	<u>1,350</u>
<b>Claims and change in insurance liabilities, net of reinsurance</b>	<u>(12)</u>	<u>(61)</u>
<b>9 Fees, commissions and other acquisition costs</b>	<b>2014</b>	2013
	<b>£000</b>	£000
Commission paid	(20)	(20)

# The Baptist Insurance Company PLC

## Notes to the Financial Statements

<b>10 Operating profit</b>	<b>2014</b>	2013
	<b>£000</b>	£000

**Operating profit has been arrived at after charging:**

Directors' fees and expenses	(45)	(43)
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**11 Auditor's Remuneration**

<b>2014</b>	2013
<b>£000</b>	£000

Fees payable to the company's auditor for the audit of the company's accounts	(11)	(13)
Audit related assurance services	(9)	(9)

Audit related assurance services represents PRA audit work.

**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>2014</b>	2013
<b>£000</b>	£000

Interest payable on permanent interest bearing capital	<u>(7)</u>	<u>(7)</u>
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**14 Charitable grants**

<b>2014</b>	2013
<b>£000</b>	£000

Charitable grants paid or accrued	<u>(200)</u>	<u>(200)</u>
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**15 Taxation**

<b>2014</b>	2013
<b>£000</b>	£000

UK corporation tax for the current financial year	<u>(79)</u>	<u>(156)</u>
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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>2014</b>	2013
<b>£000</b>	£000

Profit before tax	<u>397</u>	<u>625</u>
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Tax due calculated at the UK standard rate for the year of 21.50% (2013: 23.25%).	(85)	(145)
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The change in tax rate will have no material effect on the tax charge.

*Factors affecting charge for the period:*

Dividends from UK companies	11	8
Marginal relief	4	6
Relieved non trade charges	(8)	6
Expenses not deductible for tax purposes	<u>(1)</u>	<u>(31)</u>

<b>Tax expense</b>	<u>(79)</u>	<u>(156)</u>
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A deferred tax asset in respect of £163,500 accrued gift aid (2013: £125,000) 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 can not be carried forward to recover in future years.

A change in the UK standard rate of corporation tax from 23% to 21% became effective from 1 April 2014. Current tax has been provided at the blended rate of 21.5% (2013: 23.25%). A further reduction in the rate of corporation tax to 20% will become effective from April 2015. Deferred tax has been provided at the rate of 20%.

# The Baptist Insurance Company PLC

## Notes to the Financial Statements

### 16 Financial investments

	2014	2013
	£000	£000
<i>Financial investments at fair value through the income statement</i>		
Equity securities:		
- listed	4,313	3,453
Debt securities:		
- listed	896	1,024
	<u>5,209</u>	<u>4,477</u>
<i>Investments in group undertakings</i>		
Shares in subsidiary undertakings	2	2
	<u>2</u>	<u>2</u>
Total financial investments	<u>5,211</u>	<u>4,479</u>

All equity and debt securities are designated by the company to be measured at fair value through the income statement. No financial investments mature within 1 year (2013: £104,000).

### 17 Other assets

	2014	2013
	£000	£000
Receivables arising from insurance and reinsurance contracts:		
- due from contract holders	312	301
- due from agents, brokers and intermediaries	20	13
Other receivables:		
- accrued interest	20	20
- other prepayments and accrued income	2	3
	<u>354</u>	<u>337</u>

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 2014, £4,210 (2013: £3,958) 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

	2014	2013
	£000	£000
Cash held at bank	868	1,093
Cash held at investment broker	3	8
	<u>871</u>	<u>1,101</u>

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

### 19 Statement of changes in equity

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

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.

# The Baptist Insurance Company PLC

## Notes to the Financial Statements

### 20 Permanent interest bearing capital

	2014	2013
	£000	£000
Authorised share capital:		
2,000 4% cumulative preference shares of £5 each	10	10
28,300 5% cumulative ordinary shares of £5 each	142	142
	<u>152</u>	<u>152</u>
Called up, allotted and fully paid share capital:		
1,286 4% cumulative preference shares of £5 each	6	6
28,284 5% cumulative ordinary shares of £5 each	142	142
	<u>148</u>	<u>148</u>

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.

### 21 Insurance liabilities and reinsurance assets

#### Claims outstanding

	2014	2013
	£000	£000
<b>Gross</b>		
Claims outstanding	3,616	3,520
Unearned premiums	1,971	1,949
Total gross insurance liabilities	<u>5,587</u>	<u>5,469</u>
<b>Recoverable from reinsurers</b>		
Claims outstanding	3,529	3,440
Unearned premiums	1,971	1,949
Total reinsurers' share of insurance liabilities	<u>5,500</u>	<u>5,389</u>
<b>Net</b>		
Claims outstanding	87	80
Unearned premiums	-	-
Total net insurance liabilities	<u>87</u>	<u>80</u>
<b>Gross insurance liabilities</b>		
Current	3,019	2,666
Non-current	2,568	2,803
	<u>5,587</u>	<u>5,469</u>
<b>Reinsurance assets</b>		
Current	3,019	2,666
Non-current	2,481	2,723
	<u>5,500</u>	<u>5,389</u>

## Notes to the Financial Statements

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### 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 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.

#### (v) Change in assumptions

There are no significant changes in assumptions.

# The Baptist Insurance Company PLC

## Notes to the Financial Statements

### (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:

	2014		2013	
	Gross £000	Net £000	Gross £000	Net £000
Liability	241	9	233	8
Property	121	-	119	-

### (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. 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.

	2005 £000	2006 £000	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	Total £000
Estimate of ultimate claims:											
At end of year	876	1,389	1,954	4,626	3,551	2,129	1,414	1,227	1,134	1,889	
One year later	712	1,220	1,479	2,860	3,017	2,099	1,071	927	954		
Two years later	716	959	1,363	2,802	2,989	2,039	1,024	868			
Three years later	614	907	1,394	2,741	3,185	2,043	924				
Four years later	648	918	1,396	2,005	3,130	1,996					
Five years later	648	914	1,409	2,031	3,153						
Six years later	644	930	1,412	2,018							
Seven years later	649	932	1,415								
Eight years later	661	935									
Nine years later	663										
Current estimate of ultimate claims	663	935	1,415	2,018	3,153	1,996	924	868	954	1,889	14,815
Cumulative payments to date	(629)	(900)	(1,377)	(1,978)	(2,643)	(1,906)	(867)	(768)	(748)	(841)	(12,657)
Outstanding liability	34	35	38	40	510	90	57	100	206	1,048	2,158
Liability in respect of earlier years											1,458
Total gross liability included in insurance liabilities in the statement of financial position											3,616
Reinsurers' share of contract provisions											(3,529)
Total net liability											87

The total net liability includes a provision of £41,000 for exposure to potential unreported gross losses occurring prior to 1971, subject to confirmation of reinsurance records for this period.

# The Baptist Insurance Company PLC

## 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 2014	3,520	(3,440)	80
Cash paid for prior year claims settled in the year	(698)	693	(5)
Change in prior year liabilities/reinsurance assets	(254)	266	12
Prior year liabilities/reinsurance assets at 31 December 2014	<u>2,568</u>	<u>(2,481)</u>	<u>87</u>
Current year claims incurred	1,889	(1,889)	-
Cash paid for current year claims settled in the year	(841)	841	-
Current year liabilities/reinsurance assets at 31 December 2014	<u>1,048</u>	<u>(1,048)</u>	<u>-</u>
At 31 December 2014	<u><b>3,616</b></u>	<u><b>(3,529)</b></u>	<u><b>87</b></u>
<b>Provision for unearned premiums</b>			
At 1 January 2014	1,949	(1,949)	-
Movement in the year	22	(22)	-
At 31 December 2014	<u>1,971</u>	<u>(1,971)</u>	<u>-</u>
<b>Claims outstanding</b>			
At 1 January 2013	3,820	(3,799)	21
Cash paid for prior year claims settled in the year	(1,294)	1,292	(2)
Change in prior year liabilities/reinsurance assets	277	(216)	61
Prior year liabilities/reinsurance assets at 31 December 2013	<u>2,803</u>	<u>(2,723)</u>	<u>80</u>
Current year claims incurred	1,133	(1,133)	-
Cash paid for current year claims settled in the year	(416)	416	-
Current year liabilities/reinsurance assets at 31 December 2013	<u>717</u>	<u>(717)</u>	<u>-</u>
At 31 December 2013	<u><b>3,520</b></u>	<u><b>(3,440)</b></u>	<u><b>80</b></u>
<b>Provision for unearned premiums</b>			
At 1 January 2013	1,947	(1,947)	-
Movement in the year	2	(2)	-
At 31 December 2013	<u>1,949</u>	<u>(1,949)</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

	2014 £000	2013 £000
Creditors arising out of direct insurance operations	4	4
Creditors arising out of reinsurance operations	333	99
Other creditors	97	92
Amounts owed to related parties	2	2
Accruals and deferred income	<u>188</u>	<u>152</u>
	<u><b>624</b></u>	<u><b>349</b></u>
Current	622	347
Non-current	2	2

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

The creditors arising out of reinsurance operations comprises £728,537 (2013: £729,439) payables net of £395,522 (2013: £630,636) receivables.

# The Baptist Insurance Company PLC

## 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 £1,964,000 (2013: £1,728,000) to Ecclesiastical Insurance Office plc, which also bore expenses of the company's business of £622,000 (2013: £722,000). The reinsurer's share of technical provisions due from Ecclesiastical Insurance Office plc as at 31 December 2014 is £4,514,000 (2013: £4,538,000), which consists of £1,959,000 (2013: £1,938,000) of unearned premium and £2,554,000 (2013: £2,600,000) of outstanding claims. At 31 December 2014, £350,000 (2013: £111,000), 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 £11,000 (2013: £11,000) 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 2014 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.

