BaptistInsurance

Experts in church and home insurance

Annual Report

2019

THE BAPTIST INSURANCE COMPANY PLC

Company Registration Number 00083597

REPORT AND ACCOUNTS 31 DECEMBER 2019

The Baptist Insurance Company PLC

Report and Accounts 31 December 2019

Page	Contents

Officers and other company information

Directors	M. N. Hayes BSc, FI Chem. E, FCII *Chairman* M. R. Buttrick FCCA, FCT *Deputy Chairman* Mrs A. Bishop MBA M. A. Broad MBE D. Lane B.Comm (Hons), Certified Insurance Director A. M. Lawrence BSc, FCA T. J. Rose MBA, C Dir M. H. Tripp BSc, ARCS, FIA
Company Secretary	Mrs R. J. Hall FCIS
Chief Executive Officer	D. Lane B.Comm (Hons), Certified Insurance Director
Auditor	Deloitte LLP, Statutory Auditor Bristol United Kingdom
Registered Office	Beaufort House, Brunswick Road, Gloucester, GL1 1JZ
Company Registration Number	00083597

Directors' Biographies

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. Trustee of the Royal Shakespeare Theatre Pension Scheme. Member of Chipping Campden Baptist Church.

Mrs A. Bishop MBA

Born 1961

Appointed to the board in 2015. Formerly CEO of a regional Christian charity, following a career in marketing and public relations, and currently MD of a company importing Fair Trade products from Sri Lanka. Extensive governance experience underpinned by an Advanced Certificate in Corporate Governance. Currently on the board of a local christian homelessness charity. Active member of a local Baptist church.

M. A. Broad MBE

Born 1950

Appointed to the board in 2011. Retired senior commercial manager at HSBC Bank plc. Former treasurer of the Baptist Union of Great Britain and former moderator of the Baptist Pension Scheme Employers Group. Treasurer/Trustee of the Bristol Baptist College and Treasurer/Deacon of Keynsham Baptist Church. Chair/Trustee of the Wellsway Multi Academy Trust, Keynsham and Governor of St Patrick's Catholic Primary School, Bristol. Trustee of Bristol Zoological Society and Chair of its Audit and Risk Committee. Malcolm has 20 years experience delivering trustee training to many Baptist churches, colleges and associations across the country. In 2016 appointed a National Leader of Governance by the Department of Education. Awarded an MBE in the 2009 New Year Honors list for services to Education in Bristol.

D. Lane B.Comm (Hons), Certified Insurance Director

Born 1967

Appointed to the board in 2017. CEO of the Baptist Insurance Company plc and Managing Director of Ecclesiastical Insurance in Ireland. Previously held a number of senior executive roles across UK, Ireland and Europe. Member of the National Development Council of the Wexford Festival of Opera and the Non-life Council of Insurance Ireland. Appointed to the Board of Depaul, Ireland in 2019.

A. M. Lawrence BSc, FCA

Born 1964

Appointed to the board in 2015. Chairman of Bron Afon Community Housing, a dynamic social enterprise focused on improving the quality of life and the life chances of the people of Torfaen, South Wales. Chairman of the Audit & Risk Committee and board member of the Intellectual Property Office. Chairman of the Risk and Assurance Committee and director of Stonewater Limited. Chairman of the Audit & Risk Committee and director of the Salvation Army Housing Association. Chairman of the Finance & Audit Committee and director of both Samaritans Purse and Billy Graham Evangelistic Association. A chartered accountant and formerly finance director within the commercial and international development sectors. Member of the Church of the Resurrection, St Mellons, Cardiff where his wife is the Baptist Minister.

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. Deacon of Colchester Baptist Church.

M. H. Tripp BSc, ARCS, FIA

Born 1955

Appointed to the board in 2015. Currently a partner with City Advisory and accountancy firm Mazars LLP and council member of the Institute and Faculty of Actuaries. Formerly Group CEO Ecclesiastical Insurance and before that partner at Ernst & Young, and actuarial firm Watson Wyatt LLP. Recently completed his six year term as a Non-Executive Chair of Unity, a specialist insurance broker belonging to The Scout Association, and also non-executive director of a London Market insurer, he has over 40 years UK insurance industry experience. He is an active Christian, attending a church in Chingford.

Chairman's Statement

This statement comes to you following another volatile year in the financial markets but finishing with a degree of political stability towards the year end as the Government returned to parliament with a substantial majority. We trust this will assist the return to a more consistent performance in the wider economy. Brexit remains an unknown quantity with the Government's declared intent to conclude negotiations during 2020 against a backdrop of European political uncertainty and unpredictability as several leading countries go to the polls during the year with leadership change. At the time of writing ease of passporting for financial services continues to be less than certain which we trust will be favourably resolved for the UK Financial Services market.

Turning to the more parochial company's results I am delighted to be able to report an excellent year with outstanding investment returns and a market leading underwriting performance enhanced by recoveries from previous underwriting years – all leading to the best result I have been privileged to report since taking over the Chairman's role. This has enabled us to further increase the amount directed to grants at a time of increasing secularisation across the country. The grants facilitated some ground-breaking initiatives and opportunities to reach people for Jesus and contributed to the provision of radical and entrepreneurial training in evangelism.

We were able to allocate grants of almost £315,000 which is the highest amount in 11 years, a further increase on 2018. We are humbled to have contributed to some outstanding initiatives to reach people with the life changing Gospel in UK, Europe and India and to see the impact that we can make with grant support.

Equities had an outstanding year and experienced progressive increases throughout the year in spite of market volatility. Fixed interest returns were steady but unremarkable and in total we enjoyed an investment gain of marginally over a million pounds for the year. This contrasted with the poor results in the previous year and made a major contribution to additional strengthening of the capital base of your company.

We continue to take a conservative view of latent claims which arise from an increased awareness in potential exposure relating to historic abuse within both UK and overseas. Considerable press and media comments and investigations rightly place this matter at the forefront of public concern and we continue to support those few individuals in the Baptist community who were unfortunate enough to have suffered under these circumstances.

Returning to our results I am delighted to be able to report that with the excellent combined underwriting and investment performance we were able to achieve a record post tax profit and also increase our capital base. We are grateful to the Investment Committee members who have worked hard to ensure the right investment decisions are made.

We would also pay tribute to the underwriting and claims teams dealing day to day with our policyholders and without whom we would not have seen the successful result declared above.

Arising from the overall performance we have been able to add to our capital position which further enhances the financial strength of the company at a time of volatility and global uncertainty, ensuring our Solvency II capital remains significantly above the required minimum.

The Grants Committee have finalised revisions to assessment criteria and the web-based application process which have been fully implemented with help from our two Grants Advisors. This will enable future grant applications to be processed more rapidly and provide better support to those areas of the Baptist Family who have active outreach strategies at the heart of their mission.

We were able to partner again with several of the regional associations to support outreach work with further joint meeting with team leaders being planned in 2020 to promote and investigate better ways to accelerate grant distribution and maximise impact for the Kingdom.

Our steadily increasing support to the European Baptist Federation has continued throughout the year primarily for church planting and we were able to actively support a number of new ventures in both Western and the former Eastern Europe with some outstanding and inspirational progress being made.

I would like to pay tribute to the work of the Directors who serve the Company with skill and capability in a variety of disciplines. This year has seen another increase in workload for the Directors who serve to ensure that the Company is well positioned to enjoy a secure capital base whilst fulfilling its role as the provider of Insurance expertise to the Baptist community. We continue to build on our technical, insurance and reinsurance knowledge ensuring we are well-informed of any new regulatory and compliance requirements.

Chairman's Statement

Returning to the 2019 year's performance, written premium increased by 1.6% (2018 2.3% reduction) which is an acceptable outcome in a marketplace which has been and continues to be competitive in all areas of the business. Retention levels remain high as most Baptist churches value the responsive service and 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 encouraging, producing a positive result which did have some benefit from several prior year recoveries but reinforces that the true underwriting performance has been consistently good on an accident year basis.

But financial results, important though they are, are not our only source of Board satisfaction. It is a source of great encouragement that we are increasingly being a centre of excellence for 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, safeguarding and health/safety issues. The risk prevention guidelines continue to be 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 reinforced our sales initiative for new household and manse business and can report that this take up has been encouraging as private household policyholders recognise the value of both the personal touch over the phone and the high quality of competitively priced cover we provide. We still target increased growth in this area and are encouraged that we have seen some steady progress in 2019.

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 on behalf of 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.

In early 2020, the existence of a new coronavirus, COVID-19, was confirmed. We are managing the impact of COVID-19, using business continuity and risk management processes where appropriate. Our capital resources are very healthy and our company can well withstand significant short-term market disruption. Whilst there is the potential for the outbreak to impact our day to day operations, we believe that we can continue to provide all necessary services to our customers. Serving our customers and the health, safety and well-being of those working for us will be our priorities throughout the duration of the outbreak.

Conclusion

We are grateful to God for an outstanding year of success in the business and look to build further on this in 2020. 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. This has taken rather longer than first envisaged but should accelerate during the year with meetings already planned for early 2020 which should start to catalyse Board direction.

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 the Baptist Union of Great Britain, European Baptist Federation, Baptist Union of Scotland and BMS World Mission to further this ambition.

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

We are grateful that as a Board that we can contribute to real heart moving outreach in some of the challenging areas of distress and disadvantage and we trust that in 2020 we can further support the work of life-changing transformation through a knowledge of Jesus Christ as Lord.

Malcolm. Hayes

M. N. Hayes *Chairman*
On behalf of the directors
29 April 2020

Strategic Report

The directors present their strategic report for the year ended 31 December 2019.

Objective and strategy

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

Our vision for the Company is to be the first choice insurer within the Baptist community and to run a successful insurance business with the highest standards of integrity, helping to create safe environments for worship, witness and service.

We look to generate operating profits through the provision of insurance and through returns on investments, with the goal to maintain or strengthen the Company’s capital position. This allows the Company to continue on an ongoing basis and to provide services at a competitive cost with the aim of reinvesting back into the Baptist community via the provision of grants.

Business model

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.

All risks undertaken by the Company are reinsured with Ecclesiastical Insurance Office plc ("EIO"), except eligible terrorism risks which are reinsured with a third party, Pool Re.

To generate sustainable operating profits, the Company looks to achieve an effective cost base in providing our customers with the highest quality of service be it in buying our services or making claims. To this endeavour the Company has outsourced its operational activities to EIO, enabling us to provide our customers with a service from highly trained staff who are experts in their field.

The Board monitor the service levels provided through the outsourced agreement with EIO on a monthly basis to ensure they meet expectations and the Company are receiving value for money. These measures include but are not limited to telephony statistics, customer satisfaction, quotes issued and conversion to policies.

Review of business performance

The results of the Company for the year are shown in the statement of profit or loss on page 19. Key performance indicators are included below.

Gross written premium

Gross written premiums increased to £3,581,670 (2018: £3,526,073) representing an increase of 1.6% on the previous year. Over the past five years premiums show compound growth of 0.35% per annum.

Claims ratio

Our claims ratio (gross incurred claims to gross earned premiums) of 6.6% (2018: 29.5%) shows a 22.9 point reduction on the previous year. Claims performance experienced a case release upon settlement of a number of large claims and benign weather experience in the year, while the comparative year also saw a favourable experience.

Profit commission

The reinsurance treaty with EIO continues. The amount receivable for the current year based on the sharing of the net underwriting result was £823,490 (2018: £558,216). The overall claims experience has been impacted by the favourable claims experience, driven by releases upon settlement of a number of large claims in the year, and receipt of an exceptional annual surplus treaty profit commission.

Investment return

Our underlying investments delivered a positive return. We continue to monitor and review the investment strategy to mitigate the risk of possible future losses. The net investment return was a profit of £1,003,578 (2018: loss of £206,966) as the stock market rallied during the last quarter of 2019.

Charitable grants

The aim of the Company and the directors continues to be to support the wider Baptist family. During 2019 grants of £314,417 (2018: £244,475) were approved, and £72,500 (2018: £ nil) was accrued at year end.

Equity and reserves

The factors outlined above have all had an influence on results for the year. Profit before tax increased to £1,186,946 (2018: £18,131) and after the impact of tax, this has increased reserves by £955,792 (2018: £18,145).

Regulatory, solvency and capital management

The Company is required to comply with rules issued by the PRA and FCA. With effect from 1 January 2016 a new Europe-wide regulatory capital regime (Solvency II) was adopted by the PRA. Both quarterly and annual quantitative returns are submitted to the PRA in addition to a qualitative report, the Regular Supervisory Report (RSR) which is submitted periodically. A further report, the Solvency and Financial Condition Report (SFCR) is produced annually and must be published on the Company website.

The Company has adopted the Solvency II standard formula approach to determine its solvency capital requirement (SCR). The Company is required to maintain its regulatory capital above the SCR. Economic capital is the Company's own internal view of the level of capital required, and this measure is an integral part of the Own Risk and Solvency Assessment Report (ORSA) which is a private, internal forward looking assessment of own risk and capital requirement, as required as part of the Solvency II regime. Risk appetite is set such that the target level of economic capital is always higher than the regulatory SCR.

As at 31 December 2019, the estimated and unaudited solvency ratio, which is defined as Solvency II Own Funds as a proportion of the SCR, was 255% (2018: 215%).

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.

There is uncertainty regarding the consequences of Brexit and the wider economic impacts that it could have. The Company considers that no impact is expected on the underwriting business due to there being no European exposure on premiums written, however it is noted that there is greater equity price risk with regard to the investment portfolio if Brexit leads to greater market volatility. The Company has taken appropriate action to mitigate this risk with a global spread of equities and short duration fixed investments held.

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.

Climate change presents increasing levels of risk to both the Company and to the customers. The greatest impacts of these risks are expected to materialise in the medium to long-term, however, the actions to be taken to mitigate and manage these risks for both the short and longer term are being developed. The potential exposures for the Company include transition risk, primarily related to the investment portfolio, and physical risk affecting the insurance risks that are written.

The COVID-19 pandemic has created an additional and unexpected uncertainty to the business during 2020. The risks arising from this have been assessed and are being carefully monitored as they develop. Whilst we expect the investment markets to show increased volatility throughout and following the outbreak, there is not expected to be any significant adverse impact on the operations of the business, and the solvency, liquidity and financial outlook of the Company remain sufficient to withstand the pandemic.

Non-financial information statement

As an authorised insurance entity the Company is covered by sections 414CA and 414CB of the Companies Act 2006 (CA 2006). The Company has opted to take exemption in accordance with subsection 4(b) of s.414CA of the Act, and has not prepared the non financial information statement in the strategic report as it has no employees.

Section 172 Statement

This section of the Strategic Report describes how the Directors have had regard to the matters set out in section 172(1) (a) to (f), and forms the Directors' statement required under section 414CZA, of the Companies Act 2006.

The Directors recognise that the long-term success of the Company is dependent on having regard to the interests of its stakeholders. The Board has identified and documented its stakeholders in the Company's Governance Framework and Board Charter. Key stakeholders include its shareholders, The Baptist Union of Great Britain ("Baptist Union") and other Baptist organisations, customers and Baptist community, Ecclesiastical Insurance Office PLC, suppliers, Regulators and the wider community and its environment. Stakeholder engagement is considered as part of the decision making process of the Board.

Strategic Report

The Board recognises the importance of engaging with stakeholders, understanding their views and interests in order to run a successful company over the long-term. Dialogue with stakeholders can help the Board to understand significant changes in the landscape, predict future developments and trends, and develop strategy that is aligned to stakeholder interests.

Shareholders and key Baptist Organisations

The Board is responsible to its shareholders for the long-term success of the Company. The interests of the Company and its shareholders are aligned with the common purpose of benefiting the Baptist community. There is at least one "Baptist Union Director", but no more than a quarter of the total number of Directors of the Company, appointed to the Board. This ensures that the views of the Baptist Union are communicated to the Board as a whole and considered. Directors also actively engage with other Baptist organisations and share stakeholder insights with the Board. There is a Conflicts of Interest Policy in place to manage any actual and perceived conflicts that might arise.

There are open channels of communication between the Company and its shareholders. The Company holds an Annual General Meeting ("AGM") and luncheon to which shareholders are invited to attend.

Customers and Baptist Community

The Company has a strong reputation for delivering outstanding customer service. The Board regularly receive updates and actively challenges management on the delivery of the Customer Strategy. All Board members receive a copy of the Company's Business Report monthly, specifically noting customer satisfaction scores and any complaints handling data. Members of the Board actively engage with its customer base, including attendance at the annual Baptist Conference.

Ecclesiastical Insurance Office plc

Day to day management services are provided by EIO on the Company's behalf under the terms of the Joint Administration Agreement ("JAA"), therefore the Company has no employees.

EIO is accountable to the Board for all services undertaken in accordance with the JAA. The Board annually reviews the provision of services undertaken by EIO on the Company's behalf, providing rigorous challenge and oversight of management. The 2019 Effectiveness Review of the JAA rated all areas operating under it as effective.

Various members of EIO's management team are invited to attend Board meetings. Mark Hews, Group Chief Executive Officer ("CEO") of EIO is invited to attend the Company's AGM and also provides an annual update on EIO's strategic position to the Board. The Board Chairman regularly meets with Mark Hews to ensure the continued strategic alignment of the companies. The Board of Directors invites members of EIO staff to attend a luncheon at which EIO encourages open and honest dialogue.

Other suppliers

The importance of the role that suppliers play in ensuring a reliable service is delivered to customers is recognised by the Directors. Consequently, the Board maintains a Procurement, Purchasing and Outsourcing Policy. Regular updates on performance against the policy are provided to the Audit, Risk and Compliance Committee ("ARCC") and reported to the Board as required.

Regulators

The Board recognises the importance of open and honest dialogue with Regulators (including the Financial Conduct Authority and the Prudential Regulation Authority). The Board (via its ARCC) has received regular updates on legal, regulatory and compliance matters.

Community and environment

The Directors have considered an initial plan to address Climate Change requirements. Moreover, recognising the potential impact of Climate Change, the Board agreed to include this risk on the Company's Risk Register.

Additionally, the Board allocated Senior Management Function responsibility for managing Climate Change risk on behalf of the Company to its CEO, David Lane.

The Board is focused on its long term charitable giving to the Baptist community and was pleased to be able to increase its grants allocation to a record amount in 2019.

Approved by the Board of Directors and signed on its behalf by:

R. Hall

Mrs R. J. Hall
Secretary
29 April 2020

Directors' Report

The directors present their annual report and audited financial statements for the year ended 31 December 2019.

Future prospects

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

Events after the reporting period

In early 2020, the existence of a new coronavirus, COVID-19, was confirmed. This is covered in detail in note 25 to the financial statements.

Going concern

The Company itself maintains a strong balance sheet position and good capital coverage, and it has no loans or debts. The Company reinsures all of its current business, except for terrorism cover, with EIO, which also provides administrative services within a profit share arrangement. Therefore most of its insurance risks are ultimately borne by EIO, which is well capitalised and has ratings of A- and A with Standard and Poor's and AM Best respectively. The Company's assets excluding reinsurers share of contract provisions are also greater than insurance contract liabilities. As a consequence, and after due consideration of the impact of COVID-19 on the Company, the directors believe the Company is well placed to manage its 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 2019, in the sum of £7,328 (2018: £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 who served during the year and up to the date of this report are stated on page 2.

Mr. M.R. Buttrick and Mr. T.J. Rose retire by rotation and, being eligible, offer themselves for re-election.

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

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.

Directors' Report

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 CA 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.

Auditor and the disclosure of information to auditor

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 CA 2006.

In accordance with Section 489 of the CA 2006, a resolution proposing that Deloitte LLP be reappointed as auditor of the Company will be put to the annual general meeting.

Approved by the Board of Directors and signed on its behalf by:

R. Hall

Mrs R. J. Hall
Secretary
29 April 2020

Independent auditor's report

Independent auditor's report to the members of The Baptist Insurance Company plc

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of the Baptist Insurance Company plc (the 'company'):

- **give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;**
- **have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and**
- **have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the financial statements which comprise:

- the Statement of Profit or Loss;
- the Statement of Changes in Equity;
- the Statement of Financial Position;
- the Statement of Cash Flows; and
- the related notes 1 to 25.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: - General insurance Reserves; - Profit Commission Revenue Recognition; and - Covid-19 post balance sheet event. Within this report , key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used in the current year was £220k, which was determined on the basis of 3% of total net assets.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	A new key audit matter has been identified in the current year relating to Covid-19 post balance sheet event. This has been considered a key audit matter due to the increased risk and auditor judgment required to conclude on this aspect of the financial statements. There are no other significant changes in our approach.

Independent auditor's report

4. Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. General insurance reserves	
Key audit matter description	The general insurance provisions remain the largest single area of judgement within the Company's financial statements. Gross liabilities for outstanding claims and incurred but not reported claims amount to £3,534k (2018: £4,315k), as set out in note 21 to the financial statements. The accounting policies applied for general insurance technical reserving can be found in note 1 to the financial statements. The assumptions used in the calculation of the incurred but not reported ("IBNR") provision for long-tail claims relating to physical and sexual abuse ("PSA"), which directly impacts the completeness and valuation of the balance. The key assumptions include discount rate, claims frequency and cost per claim, and therefore the reasonableness of these assumptions are fundamental to the financial statements. Given the high level of judgement in determining the PSA IBNR provision, we considered the potential for fraud through management bias in this estimate.
How the scope of our audit responded to the key audit matter	We have obtained an understanding of the relevant controls in the actuarial assumption setting process. We have challenged the key assumptions used within the calculation of the UK PSA and reserves such as inflation and cost per claim with the involvement of our general insurance specialists, taking into account market trends and claims development patterns. We reviewed the calculations relating to the claims reserves for mechanical accuracy. We analysed the accuracy of management's reserve estimations by taking into consideration the reserves held in 2018 and new cases reported in 2019. We also considered any cases closed in 2019 and previous years and then compared the average cost per claim to the estimated costs per claims used in management's assumptions. We considered external factors such as new PSA enquiries in the religious sector by the Independent Inquiry into Child Sexual Abuse (IICSA) and any potential impact this may have on the PSA IBNR provision.
Key observations	Overall we considered that the methodology applied and key assumptions used by management in their general insurance reserving process are reasonable.

Independent auditor's report

5.2. Profit Commission Revenue Recognition	
Key audit matter description	A significant amount of the Company's income is received in a profit commission arrangement with EIO. The calculation is manual and could be liable to manipulation of inputs. The Profit commission in the year was £823k (2018: £558k). The corresponding accounting policies applied for profit commission can be found in note 1 of the financial statements. This income is determined by a calculation which takes into account both underwriting and notional investment income. Although each individual element is reconciled, the calculation is compiled manually and as such it could be subject to manipulation due to fraud or error.
How the scope of our audit responded to the key audit matter	We have obtained an understanding of the relevant controls which govern the profit commission process. We have reviewed the profit commission calculation which determines the amount of income to be received by the Company against underlying terms in place between the Company and EIO and assessed whether there have been any changes to these terms. We have tested the accuracy of the figures used within the profit commission calculation by verification to other audited balances from the financial statements.
Key observations	Overall we consider profit commission revenue recognition to be in line with the terms agreed between the Company and EIO.

5.3. Covid-19 post balance sheet event	
Key audit matter description	As disclosed in Note 25, subsequent to the balance sheet date a global pandemic of a new strain of Coronavirus ("Covid-19", "the virus") has emerged. The virus, and responses taken by organisations and governments to manage its spread in markets to which the company is exposed, have led to increased volatility and economic disruption. Management judge the matter to be a non-adjusting event in accordance with accounting standards, since it is indicative of conditions that arose after the reporting period. It is therefore not reflected in the measurement of assets and liabilities at the balance sheet date. In response to Covid-19, management have made updates to the financial statements to disclose Covid-19 as a subsequent event, and have assessed the impact on going concern. To support this management performed procedures to assess the financial and operational impacts of Covid-19 up to the date of approval of the financial statements, including: • Performing scenario testing to ensure an appropriate capital surplus is maintained to meet liabilities as they fall due, including consideration of further negative impact of Covid-19 in markets to which the company is exposed. This includes having plans for certain management actions if the company falls outside its approved risk appetite; • Evaluating the company's outsourced operations and its ability to continue to serve customers, comply with conduct regulations and maintain appropriate internal controls; and • Monitoring of the company's solvency coverage ratio, capital and liquidity positions, and updating cashflow forecasts. The assessment of the impact of Covid-19 on the company requires management judgement and consideration of a range of factors. Having considered the results of the activities described above, management believes the company continues to be a going concern due to having a stable solvency position and appropriate plans to manage liquidity risk. The company's business continuity plans have also been initiated and management consider that these will enable them to continue to deliver critical business services. The company has made disclosures to reflect the results of its assessment in the Directors' Report, the Strategic Report, the Basis of Presentation accounting policy note and Note 25 *Events after the balance sheet date.*

Independent auditor's report

How the scope of our audit responded to the key audit matter	We evaluated management's approach to assessing the impact of Covid-19 on the company and its financial statement disclosures by performing the following procedures: We evaluated management's scenario testing and challenged management's key assumptions, assessing its consistency with other available information and our understanding of the business; We evaluated management's assessment of the risks facing the company including liquidity risk and operational matters; We made inquiries of senior management in relation to their assessment of the impacts of Covid-19 on the company, including further steps the company will take in case economic and other factors deteriorate further; We extended our review of correspondence between the company and its regulators to include company's responses to the emergence of Covid-19; and We assessed the disclosures made by management in the financial statements against applicable accounting standards, including management's judgment that Covid-19 is a non-adjusting post balance sheet event and evaluated the consistency of the disclosures with our knowledge of the company.
Key observations	We consider that the post balance event disclosures in the financial statements are appropriate.

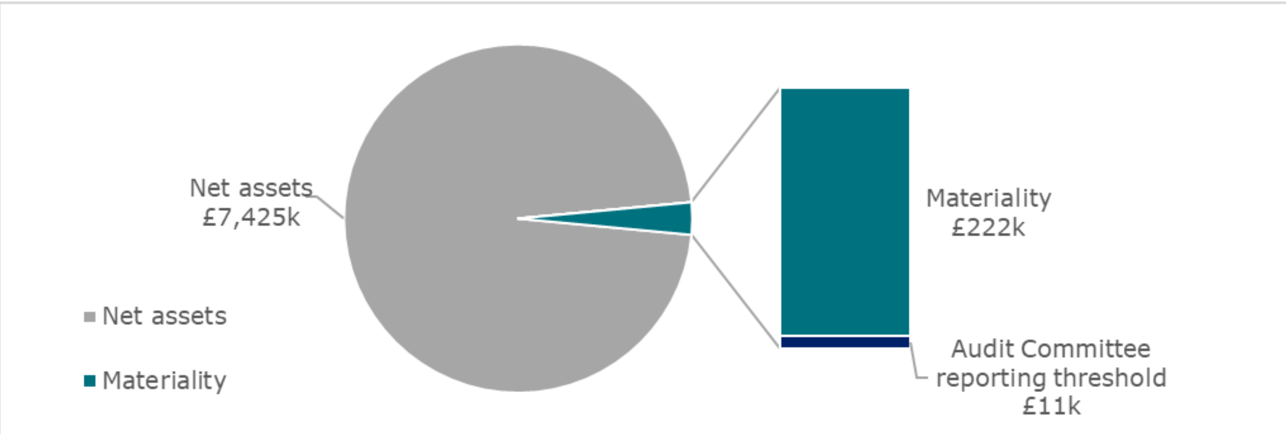
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£220k (2018: £196k)
Basis for determining materiality	3% of net assets (2018: 3% of net assets)
Rationale for the benchmark applied	We find this benchmark to be appropriate as the Company is not driven by a profit focus. This is demonstrated by the large grants paid by the Company every year. We determined materiality based on net assets due to the shareholders' focus on capital requirements.



Independent auditor’s report

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the following

a. Our risk assessment, including assessment of the company's overall control environment and that we consider it appropriate to rely on controls over a number of business processes; and
b. Our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the committee all audit differences in excess of £11k (2018: £10k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

8. Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor’s report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

9. Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company’s ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

11.1. Identifying and assessing potential risks related to irregularities
In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the company's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the board;
- results of our enquiries of management, internal audit, and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, IT, and general actuarial specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

Independent auditor's report

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the valuation of general insurance reserves and recognition of the revenue from the profit commission. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty. These included laws and regulations issued by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority ('PRA'), including the Company's regulatory solvency capital requirements.

11.2. Audit response to risks identified

As a result of performing the above, we identified general insurance reserves and profit commission revenue recognition as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to these audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, the FCA, and the PRA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Independent auditor's report

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

14. Other matters

14.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Company's Board of Directors on 1 November 1998 to audit the financial statements for the year ended 31 December 1994 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 26 years, covering the years ended 31 December 1994 to 31 December 2019.

14.2. Consisitency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

15. Use of our report

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.

A J Holland

Andrew Holland FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Bristol, United Kingdom

29 April 2020

Statement of Profit or Loss

for the year ended 31 December 2019

	Notes	2019 £	2018 £
Revenue			
Gross written premiums	5	**3,581,670**	3,526,073
Outward reinsurance premiums	5	**(3,581,670)**	(3,526,073)
Net change in provision for unearned premiums	5	**-**	-
Net earned premiums	5	**-**	-
Fee and commission income	6	**843,537**	581,312
Net investment return	7	**1,003,578**	(206,966)
Total revenue		**1,847,115**	374,346
Expenses			
Claims and change in insurance liabilities	8	**(233,738)**	(1,113,153)
Reinsurance recoveries	8	**87,738**	1,146,652
Fees, commissions and other acquisition costs	9	**(14,258)**	(14,661)
Other operating and administrative expenses		**(178,166)**	(123,250)
Total operating expenses		**(338,424)**	(104,412)
Operating profit	10	**1,508,691**	269,934
Finance costs	13	**(7,328)**	(7,328)
Charitable grants	14	**(314,417)**	(244,475)
Profit before tax		**1,186,946**	18,131
Taxation	15	**(231,154)**	14
Profit attributable to equity holders		**955,792**	18,145

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.

Statement of Financial Position

at 31 December 2019

	Notes	2019	2018
		£	£
Assets			
Financial investments	16	**7,356,397**	6,227,511
Reinsurers' share of contract provisions	21	**4,747,408**	5,713,707
Other assets	17	**517,932**	254,177
Cash and cash equivalents	18	**1,010,129**	969,577
Total assets		**13,631,866**	13,164,972
Liabilities			
Permanent interest-bearing capital	20	**147,850**	147,850
Insurance contract provisions	21	**5,509,910**	6,330,209
Current tax liabilities		**231,154**	-
Other liabilities	22	**317,353**	217,106
Total liabilities		**6,206,267**	6,695,165
Net assets		**7,425,599**	6,469,807
Equity			
Retained earnings		**7,425,599**	6,469,807
Total equity		**7,425,599**	6,469,807

The financial statements of The Baptist Insurance Company plc, company registration number 00083597, on pages 19 to 42 were approved by the board of directors and authorised for issue on 29 April 2020 and signed on their behalf by:

M. N. Hayes *Chairman*

M. R. Buttrick *Deputy Chairman*

Statement of Changes in Equity

for the year ended 31 December 2019

Retained Earnings	Note	**2019** £	2018 £
Balance at 1 January		**6,469,807**	6,451,662
Profit for the period		**955,792**	18,145
Balance at 31 December	19	**7,425,599**	6,469,807

The accounting policies and notes on pages 23 to 42 form part of these accounts.

Statement of Cash Flows

for the year ended 31 December 2019

	Notes	2019	2018
		£	£
Profit before tax		**1,186,946**	18,131
Adjustments for:			
Net fair value (gains)/losses on financial investments	7	**(817,784)**	422,107
Dividend and interest income	7	**(186,796)**	(215,815)
Finance expense	13	**7,328**	7,328
Changes in operating assets and liabilities:			
Net decrease in insurance contract provisions	21	**(820,299)**	(69,791)
Net decrease in reinsurers' share of contract provisions	21	**966,299**	35,293
Net (increase)/decrease in other assets		**(263,755)**	45,823
Net increase/(decrease) in other liabilities		**100,247**	(178,894)
Cash generated by operations		**172,186**	64,182
Sales of financial investments		**858,444**	319,099
Purchases of financial investments		**(1,169,546)**	(605,204)
Dividends received		**152,102**	182,716
Interest received		**34,694**	33,098
Tax paid		**-**	(80,986)
Net cash from operating activities		**47,880**	(87,095)
Cash flows from financing activities			
Interest paid	13	**(7,328)**	(7,328)
Net increase/(decrease) in cash and cash equivalents		**40,552**	(94,423)
Cash and cash equivalents at beginning of year		**969,577**	1,064,000
Cash and cash equivalents at end of year	18	**1,010,129**	969,577

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 using the following accounting policies which are in accordance with IFRSs applicable at 31 December 2019 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 measured at fair value.

The Company itself maintains a strong balance sheet position and good capital coverage. The Company reinsures all of its current business, except for terrorism cover, with EIO, which also provides administrative services within a profit share arrangement. Therefore most of its insurance risks are ultimately borne by EIO, which is well capitalised and has ratings of A- and A with Standard and Poor's and AM Best respectively. The Company's assets excluding reinsurers share of contract provisions are also greater than insurance contract liabilities. The Company has the operational resilience, capital resources and liquidity to withstand temporary market disruption caused by the emergence and spread of COVID-19. As a consequence, the directors believe the Company is well placed to manage its 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 exemption in CA 2006 s405(2) is taken as the subsidiaries disclosed in note 24 are not material to the financial statements and are dormant, having not traded since incorporation. The Company has elected not to produce consolidated 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

IFRS 9, *Financial Instruments,* is effective for periods beginning on or after 1 January 2018. However the Company has taken the option available to insurers to defer the application of IFRS 9 as permitted by IFRS 4, *Insurance Contracts.* The Company qualifies for temporary exemption which is available until annual periods beginning on or after 1 January 2021, because at 31 December 2015 greater than 90% of the Company's liabilities were within the scope of IFRS 4. There have been no significant changes to the Company's operations since that date and as a result the Company continues to apply IAS 39, *Financial Instruments* .

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

Notes to the Financial Statements

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

Accounting Standard	**Key requirements**	**Expected impact on financial statements**	**Effective date**
IFRS 9, *Financial Investments*	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 certain debt instruments will change to amortised cost or fair value through other comprehensive income, although this is being assessed. The Company is eligible for, and has adopted, the deferral approach which gives a temporary exemption from applying IFRS 9 until the effective date of 'IFRS 17, Insurance contracts'.	Annual periods beginning on or after 1 January 2018. Although can be deferred until 2021 for insurers.
IFRS 17, *Insurance Contracts*	Requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts.	IFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. The standard was issued in May 2017 as replacement for 'IFRS 4 Insurance Contracts' and the impact of the standard on the financial statements is still being assessed. The Company expects to be able to use the simplified premium allocation approach to the majority of its insurance contracts, which applies mainly to short-duration contracts.	Applicable to annual reporting periods beginning on or after 1 January 2021 (subject to EU endorsement).

Notes to the Financial Statements

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 primarily comprises reinsurance commissions receivable, which are recognised on trade date in accordance with IFRS 4 *Insurance Contracts.* Non-insurance commissions receivable are accounted for in accordance with IFRS 15 *Revenue from contracts with customers*, and are recognised at the point at which the Company satisfies its performance obligation. Where this income is variable, it is recognised at the point at which it is reasonably certain that no significant reversal of the amount recognised would occur.

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 statement of profit or loss 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 EIO 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 a third party, 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 statement of profit or loss 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

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 statement of profit or loss 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
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 virtually certain.

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.

Taxation
Income tax comprises current tax and is recognised in the statement of profit or loss. 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, where they arise, 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. In the current and prior year no material judgements were made.

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. The sensitivity of profit or loss to changes in the ultimate settlement cost of claims reserves is presented in note 21(vi).

Notes to the Financial Statements

3 Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount and timing 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 or lost 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 related events.

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 payments. Key factors driving the high levels of uncertainty include the late notification of possible claims events and the legal process.

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.

Notes to the Financial Statements

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			
	Property	**Liability**	**Accident**	**Total**
	£000	**£000**	**£000**	**£000**
Gross written premiums				
2019	**3,264**	**294**	**24**	**3,582**
2018	3,209	292	25	3,526

The Company operates a Joint Administration Agreement and a Reinsurance Treaty Agreement with EIO, under which EIO 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 a third party, 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.

Liability classes

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

Claims that may arise from the liability portfolios include damage to third party property, physical and sexual abuse, 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.

Notes to the Financial Statements

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. Currently in certain cases, the Company only has access to very limited information for such claims. 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.

As at the balance sheet date there had been no change from the prior period in the financial risks that the Company was exposed to, or the manner in which it manages and measures these risks. However the COVID-19 pandemic has created an additional and unexpected uncertainty to the business during 2020. The risks arising from this have been assessed and are being carefully monitored as they develop. Whilst we expect the investment markets to show increased volatility throughout and following the outbreak, there is not expected to be any significant adverse impact on the operations of the business, and the solvency, liquidity and financial outlook of the Company remain sufficient to withstand the pandemic.

Notes to the Financial Statements

Categories of financial instruments

	Financial assets					
	Designated at fair value	**Loans and receivables**	**Cash and cash equivalents**	**Financial liabilities at amortised cost**	**Non-financial assets and liabilities**	**Total**
At 31 December 2019						
	£	**£**	**£**	**£**	**£**	**£**
Financial investments	**7,354,401**	**-**	**-**	**-**	**1,996**	**7,356,397**
Other assets	**-**	**515,599**	**-**	**-**	**2,333**	**517,932**
Cash and cash equivalents	**-**	**-**	**1,010,129**	**-**	**-**	**1,010,129**
Permanent interest bearing capital	**-**	**-**	**-**	**(147,850)**	**-**	**(147,850)**
Other liabilities	**-**	**-**	**-**	**(137,150)**	**(180,203)**	**(317,353)**
Net insurance contract provisions	**-**	**-**	**-**	**-**	**(762,502)**	**(762,502)**
Current tax liabilities	**-**	**-**	**-**	**-**	**(231,154)**	**(231,154)**
Net assets	**7,354,401**	**515,599**	**1,010,129**	**(285,000)**	**(1,169,530)**	**7,425,599**
At 31 December 2018						
	£	£	£	£	£	£
Financial investments	6,225,515	-	-	-	1,996	6,227,511
Other assets	-	251,844	-	-	2,333	254,177
Cash and cash equivalents	-	-	969,577	-	-	969,577
Permanent interest bearing capital	-	-	-	(147,850)	-	(147,850)
Other liabilities	-	-	-	(178,488)	(38,618)	(217,106)
Net insurance contract provisions	-	-	-	-	(616,502)	(616,502)
Net assets	6,225,515	251,844	969,577	(326,338)	(650,791)	6,469,807

As disclosed in the accounting policies, the Company has chosen to defer application of IFRS 9 and classifies and measures financial instruments using IAS 39. To facilitate comparison with entities applying IFRS 9, the table below sets out the Company's financial assets at the balance sheet date, split between those which have contractual cash flows that are solely payments of principal and interest on the principal outstanding (SPPI) and all other financial assets.

	SPPI financial assets	**Other financial**	**Total financial**	SPPI financial assets	Other financial assets	Total financial assets
	£	**£**	**£**	£	£	£
Financial Investments	**-**	**7,354,401**	**7,354,401**	-	6,225,515	6,225,515
Cash and cash equivalents	**1,010,129**	**-**	**1,010,129**	969,577	-	969,577
Other financial assets	**515,599**	**-**	**515,599**	251,844	-	251,844
Total fair value	**1,525,728**	**7,354,401**	**8,880,129**	1,221,421	6,225,515	7,446,936

There has been a £303,485 increase (2018: decrease £140,455) in the fair value of SPPI financial assets of the Company , and a £1,128,886 increase (2018: decrease £136,341) in the fair value of other financial assets of the Company during the year.

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.

Notes to the Financial Statements

(a) Interest rate risk

	2019	2018
	£	£
Other assets including insurance instalment receivables	**233,815**	226,208
Cash and cash equivalents	**1,010,129**	969,577
	1,243,944	1,195,785

All amounts have maturity dates of less than one year.

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;
- amounts due from EIO under the Joint Administration Agreement and Reinsurance Treaty; and
- deposits held with banks.

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 EIO, with the exception of terrorism cover which is reinsured through a third party, 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. EIO 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.

Where available the Company manages its exposure to credit risk in relation to credit risk ratings. Investment grade financial assets are classified within the range AAA to BBB ratings, where AAA is the highest possible rating. Financial assets which fall outside this range are classified as sub-investment grade. 'Not-rated' assets capture assets not rated by external rating agencies.

Notes to the Financial Statements

The following table provides information regarding the credit risk exposure of financial assets with credit ratings from Standard & Poors or from a similar agency. This includes financial assets that meet the definition of 'solely payments of principal and interest' (SPPI).

As at 31 December 2019	**SPPI**				**Non-SPPI**
	Cash and cash equivalents	**Reinsurance debtors**	**Other financial assets**	**Total SPPI**	**Financial Investments**
AAA	-	-	-	-	-
AA	**263**	-	-	**263**	-
A	**1,009,866**	**231,110**	-	**1,240,976**	-
BBB	-	-	-	-	-
Below BBB	-	-	-	-	-
Not rated	-	-	**284,488**	**284,488**	**7,354,401**
	1,010,129	**231,110**	**284,488**	**1,525,727**	**7,354,401**

As at 31 December 2018	SPPI				Non-SPPI
	Cash and cash equivalents	Reinsurance debtors	Other financial assets	Total SPPI	Financial Investments
AAA	-	-	-	-	-
AA	-	-	-	-	-
A	9,396	-	-	9,396	-
BBB	960,181	-	-	960,181	-
Below BBB	-	-	-	-	-
Not rated	-	-	251,844	251,844	6,225,515
	969,577	-	251,844	1,221,421	6,225,515

(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) Equity risk sensitivity analysis

The sensitivity of profit to movements in equity price risk is shown in the following table:

Variable	Change in variable	Potential increase/ (decrease) in profit after tax 2019	2018
		£	£
Equity price risk	**-10%**	**(595,706)**	(504,267)
	+10%	**595,706**	504,267

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 tax rate of 19.00% (2018: 19.00%). No fixed income investments were held at 31 December 2019, although the investments held as OEICs have a significant fixed interest element within them.

(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. With effect from 1 January 2016 a new Europe-wide regulatory capital regime (Solvency II) was adopted by the PRA. Both quarterly and annual quantitative returns are submitted to the PRA in addition to a qualitative report, the Regular Supervisory Report (RSR) which is submitted periodically. A further report, the Solvency and Financial Condition Report (SFCR) is produced annually and must be published on the Company website.

During the year, the Company complied with these capital requirements.

The Company has adopted the Solvency II standard formula approach to determine its solvency capital requirement (SCR). The Company is required to maintain its regulatory capital above the SCR. Economic capital is the Company’s own internal view of the level of capital required, and this measure is an integral part of the Own Risk and Solvency Assessment Report (ORSA) which is a private, internal forward looking assessment of own risk, as required as part of the Solvency II regime. Risk appetite is set such that the target level of economic capital is always higher than the regulatory SCR.

5 Net insurance premium revenue	**2019**	2018
	£	£
Gross written premiums	**3,581,670**	3,526,073
Change in the gross provision for unearned premiums	**(21,670)**	40,116
Gross earned premiums	**3,560,000**	3,566,189
Outward reinsurance premiums	**(3,581,670)**	(3,526,073)
Change in the provision for unearned premiums, reinsurers' share	**21,670**	(40,116)
Reinsurers' share of earned premiums	**(3,560,000)**	(3,566,189)
Premiums written, net of reinsurance	**-**	-
Earned premiums, net of reinsurance	**-**	-

Notes to the Financial Statements

6 Fee and commission income	2019	2018
	£	£
Reinsurance commissions and profit commission	**837,747**	572,876
Other commissions	**5,790**	8,436
	843,537	581,312

During the year the Company received fee and commission income of £8,416 (2018: £3,919) from its contracts with customers, which was recognised in respect of performance obligations satisfied at a point in time.

7 Net investment return	2019	2018
	£	£
Income from financial assets at fair value through the statement of profit or loss:		
- equity income	**152,102**	182,716
Income from financial assets not at fair value through the statement of profit or loss:		
- other income received	**34,694**	33,098
Investment income	**186,796**	215,814
Fair value gains/(losses) on investments at fair value through the statement of profit or loss	**817,784**	(422,107)
Investment expenses	**(1,002)**	(673)
Net investment return	**1,003,578**	(206,966)

8 Claims and change in insurance liabilities and reinsurance recoveries	2019	2018
	£	£
Gross claims paid	**(1,075,706)**	(1,142,180)
Gross change in the provision for claims	**841,968**	29,027
Claims and change in insurance liabilities	**(233,738)**	(1,113,153)
Reinsurers' share of claims paid	**1,075,706**	1,142,180
Reinsurers' share of change in the provision for claims	**(987,968)**	4,472
Reinsurance recoveries	**87,738**	1,146,652
Claims and change in insurance liabilities, net of reinsurance	**(146,000)**	33,499

9 Fees, commissions and other acquisition costs	2019	2018
	£	£
Commission paid	**14,258**	14,661

10 Operating profit	2019	2018
	£	£
Operating profit has been arrived at after charging:		
Directors' fees and expenses	**67,619**	69,937

11 Auditor's remuneration	2019	2018
	£	£
Fees payable to the company's auditor for the audit of the Company's accounts	**42,000**	30,000

12 Employee information

As all management services are provided by EIO under the terms of the Joint Administration Agreement, the Company had no employees in either the current or prior year.

Notes to the Financial Statements

13 Finance costs	2019	2018
	£	£
Interest payable on permanent interest-bearing capital	**7,328**	7,328

14 Charitable grants	2019	2018
	£	£
Charitable grants paid or accrued	**314,417**	244,475

15 Taxation	2019	2018
	£	£
UK corporation tax for the current financial year	**(231,154)**	14
Tax expense	**(231,154)**	14

	2019	2018
	£	£
Profit before tax	**1,186,946**	18,131
Tax due calculated at the UK standard rate for the year of 19.00% (2018: 19.00%).	**(225,520)**	(3,445)
The change in tax rate will have no material effect on the tax charge.		
Factors affecting charge for the period:		
Dividends from UK companies	**9,533**	10,182
Relieved non-trade charges	**-**	(5,331)
Expenses not deductible for tax purposes	**(15,167)**	(1,392)
Adjustments to tax charge in respect of prior periods	**-**	-
Tax (expense)/credit	**(231,154)**	14

Deferred tax asset in the current year is £nil (2018: £nil)

A change in the UK standard rate of corporation tax from 20% to 19% became effective from 1 April 2017. Current tax has been provided at a rate of 19.00% for the current year and for the prior year. A further reduction in the rate of corporation tax to 17% has been substantively enacted to take effect from April 2020.

Notes to the Financial Statements

16 Financial investments

	2019	2018
Financial investments at fair value through the statement of profit or loss	**£**	£
Equity securities:		
- listed	**7,354,401**	6,225,515
	7,354,401	6,225,515
Investments in group undertakings		
Shares in subsidiary undertakings	**1,996**	1,996
	1,996	1,996
Total financial investments	**7,356,397**	6,227,511

All equity and debt securities are designated by the Company to be measured at fair value through the statement of profit or loss. No financial investments mature within one year (2018: £nil). The financial investments are held as OEIC funds which contain both fixed interest and equity elements.

17 Other assets

	2019	2018
	£	£
Receivables arising from insurance and reinsurance contracts:		
- due from contract holders	**277,324**	239,387
- due from agents, brokers and intermediaries	**7,165**	12,457
- due from reinsurers	**231,110**	-
Other receivables:		
- other prepayments and accrued income	**2,333**	2,333
	517,932	254,177

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 2019, £1,174 (2018: £3,000) 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

	2019	2018
	£	£
Cash held at bank	**1,009,866**	960,181
Cash held at investment manager	**263**	9,396
	1,010,129	969,577

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 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.

Notes to the Financial Statements

20 Permanent interest-bearing capital

	2019	2018
	£	£
Authorised share capital:		
2,000 4% cumulative preference shares of £5 each	**10,000**	10,000
28,300 5% cumulative ordinary shares of £5 each	**141,500**	141,500
	151,500	151,500
Called up, allotted and fully paid share capital:		
1,286 4% cumulative preference shares of £5 each	**6,430**	6,430
28,284 5% cumulative ordinary shares of £5 each	**141,420**	141,420
	147,850	147,850

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

	2019	2018
Gross	**£**	£
Claims outstanding	**3,534,442**	4,376,411
Unearned premiums	**1,975,468**	1,953,798
Total gross insurance liabilities	**5,509,910**	6,330,209
Recoverable from reinsurers		
Claims outstanding	**2,771,940**	3,759,909
Unearned premiums	**1,975,468**	1,953,798
Total reinsurers' share of insurance liabilities	**4,747,408**	5,713,707
Net		
Claims outstanding	**762,502**	616,502
Unearned premiums	**-**	-
Total net insurance liabilities	**762,502**	616,502
Gross insurance liabilities		
Current	**2,640,044**	3,039,799
Non-current	**2,869,866**	3,290,410
Total gross insurance liabilities	**5,509,910**	6,330,209
Reinsurance assets		
Current	**2,640,044**	3,039,799
Non-current	**2,107,364**	2,673,908
Total reinsurers' share of insurance liabilities	**4,747,408**	5,713,707

Notes to the Financial Statements

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. The Company also includes additional reserves for exposure where limited information is currently known, however risks have been identified.

(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.

Notes to the Financial Statements

(v) Change in assumptions

There are no significant changes in 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:

	2019		2018	
	Gross	**Net**	Gross	Net
	£000	**£000**	£000	£000
Liability	**275**	**76**	342	62
Property	**78**	**-**	96	-

(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.

	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Estimate of ultimate claims:											
At end of year	2,129	1,414	1,227	1,134	1,889	1,425	1,105	1,571	1,904	920	
One year later	2,099	1,071	927	954	1,796	1,109	991	1,048	1,819		
Two years later	2,039	1,024	868	889	1,740	954	950	983			
Three years later	2,043	924	832	883	1,317	942	849				
Four years later	1,996	919	882	856	1,302	944					
Five years later	2,073	1,018	876	854	1,302						
Six years later	2,144	1,008	872	857							
Seven years later	2,137	1,003	873								
Eight years later	2,139	1,011									
Nine years later	2,142										
Current estimate of ultimate	2,142	1,011	873	857	1,302	944	849	983	1,819	920	11,701
Cumulative payments to date	(2,079)	(949)	(820)	(806)	(1,256)	(893)	(745)	(847)	(1,555)	(256)	(10,206)
Outstanding liability	63	62	53	51	46	51	104	137	265	664	1,494
Liability in respect of earlier years											2,040
Total gross liability included in insurance liabilities in the balance sheet											3,534
Reinsurers' share of contract provisions											(2,772)
Total net liability											763

Notes to the Financial Statements

(viii) Movements in insurance liabilities and reinsurance assets

	Gross	Reinsurance	Net
	£	£	£
Claims outstanding			
As at 1 January 2019	**4,315,410**	**(3,759,908)**	**555,502**
Cash paid for prior year claims settled in the year	**(819,680)**	**819,680**	**-**
Change in prior year liabilities/reinsurance assets	**(625,864)**	**832,864**	**207,000**
Prior year liabilities/reinsurance assets at 31 December 2019	**2,869,866**	**(2,107,364)**	**762,502**
Current year claims incurred	**920,601**	**(920,601)**	**-**
Cash paid for current year claims settled in the year	**(256,025)**	**256,025**	**-**
Current year liabilities/reinsurance assets at 31 December 2019	**664,576**	**(664,576)**	**-**
At 31 December 2019	**3,534,442**	**(2,771,940)**	**762,502**
Provision for unearned premiums			
At 1 January 2019	**1,953,798**	**(1,953,798)**	**-**
Movement in the year	**21,670**	**(21,670)**	**-**
At 31 December 2019	**1,975,468**	**(1,975,468)**	**-**
Claims outstanding			
At 1 January 2018	4,406,438	(3,755,437)	651,001
Cash paid for prior year claims settled in the year	(324,724)	323,724	(1,000)
Change in prior year liabilities/reinsurance assets	(852,305)	757,806	(94,499)
Prior year liabilities/reinsurance assets at 31 December 2018	3,229,409	(2,673,907)	555,502
Current year claims incurred	1,904,457	(1,904,457)	-
Cash paid for current year claims settled in the year	(818,456)	818,456	-
Current year liabilities/reinsurance assets at 31 December 2018	1,086,001	(1,086,001)	-
At 31 December 2018	4,315,410	(3,759,908)	555,502
Provision for unearned premiums			
At 1 January 2018	1,993,914	(1,993,914)	-
Movement in the year	(40,116)	40,116	-
At 31 December 2018	1,953,798	(1,953,798)	-

The net liability for unearned premium is £nil (2018: £nil) as the company's provision is exactly matched by the corresponding reinsurer's share asset.

Notes to the Financial Statements

22 Other liabilities

	2019	2018
	£	£
Creditors arising out of direct insurance operations	**61,581**	2,977
Creditors arising out of reinsurance operations	**3,153**	44,180
Other creditors	**123,981**	129,120
Amounts owed to related parties	**1,996**	1,996
Accruals and deferred income	**126,642**	38,833
	317,353	217,106
Current	**315,357**	215,110
Non-current	**1,996**	1,996

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

The creditors arising out of reinsurance operations comprises £698,402 (2018: £714,647) payables net of £926,360 (2018: £670,467) receivables.

23 Related party transactions

The Company has a reinsurance treaty with ElO whereby all business accepted by the Company is fully reinsured with EIO with the exception of terrorism cover which is reinsured through a third party, 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 EIO under which all administration expenses are borne by EIO.

During the year the Company ceded premiums net of claims paid and commissions to the value of £2,461,611 (2018: £2,343,232) to EIO, which also bore expenses of the Company's business of £957,000 (2018: £892,000). The reinsurer's share of technical provisions due from EIO as at 31 December 2019 is £4,103,000 (2018: £4,847,000), which consists of £1,975,000 (2018: £1,954,000) of unearned premium and £2,128,000 (2018: £2,893,000) of outstanding claims. At 31 December 2019, £229,000 was due to EIO (2018: £56,000 due from EIO).

Recipients of grants are proposed by the grants committee, and ratified by the Board. During the year, nothing has been paid or accrued (2018: nil paid or accrued) for The Baptist Union of Great Britain.

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

24 Subsidiary undertakings

The Company's interest in subsidiary undertakings at 31 December 2019 is as follows:

	Share Capital	Holding
Baptist Support Services Limited	Ordinary shares	99.8%
Baptist Insurance Services Limited	Ordinary shares	99.8%

The Company is the controlling party of both subsidiaries which are incorporated in England and Wales, are dormant, having not traded since incorporation, and are not material to the Company's accounts. Their registered office is the same as the Company's address as noted on page 2.

25 Events after the balance sheet date

In early 2020, the existence of a new coronavirus, COVID-19, was confirmed. This virus has since spread across the globe and is now characterised by the World Health Organization as a pandemic. COVID-19 has caused disruption to businesses and economic activity which has been reflected in recent fluctuations in UK and global stock markets. The Company considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event. The Company has conducted additional assessments of its operational resilience, solvency, liquidity and financial position and concluded that these remain sufficient, demonstrated by the 31 March 2020 solvency ratio which remains in excess of the Solvency II regulatory capital requirements and above operating tolerance levels set by the board, despite seeing a partial reduction driven by investment market movements. The estimated net assets of the Company as at 31 March 2020 were £6.8m, unaudited (31 December 2019: £7.4m).

BaptistInsurance
Experts in church and home insurance

04/20