MCA
Funding for Churches

Annual report and accounts 2019

Front cover: Fortrose Free Church

History of the site
The old Fortrose Free Church building was constructed in 1910. However, this building had been erected on soft ground leading to structural problems. Cracking in walls was visible in various places inside and out. The pews were no longer horizontal, and a gap emerged on the way to the pulpit.

With worsening structural problems, it was decided to demolish the old building and rebuild the church. The final Sunday services in the old building took place in September 2017 and the demolition work revealed clearly the extent of structural damage due to subsidence.

The new building was designed to increase space and improve access, including a sanctuary, a fellowship lounge/children's area and ancillary rooms.

The substructure for the new building needed to be remeasured and redesigned due to the softness of the ground. Many deliveries of aggregate were made in order to make a stable platform for the new building.

Following completion of the exterior and interior works, the first meeting in the new church was in May 2019

"We are deeply appreciative of the funding we have received."

MCA
Funding for Churches

We provide loans to Christian churches and associated organisations at the lowest practicable rate of interest. Our loans are primarily intended to enhance church buildings for the benefit and inspiration of the church and community. We seek to operate to the highest standards of ethical behaviour in all that we do.

Contents

Chair's Statement

Economic background

The economic and political environment in the UK has remained uncertain during 2019, with continuing Brexit negotiations and a general election. Nevertheless, stock markets have strengthened, with market gains achieved during the year more than reversing the losses seen in 2018. The Bank of England base rate was unchanged during the year at 0.75%.

The Company's strong balance sheet and established business model give it confidence that it is well placed to support customers, both borrowers and depositors.

The Company's performance

Throughout 2019 the Company has operated successfully and within its regulatory requirements. Once again, the two most significant indicators of the Company's long-term sustainability, namely adequate capital and sufficient liquidity, have proved to be very robust.

It has been encouraging to see the significant increase in lending over the past year and this has been accommodated within the Board's policy parameters and in accordance with its strategic plans

Capital adequacy

The Company ensures that it maintains adequate levels of capital at all times and has continued to meet all regulatory requirements relating to its capital.

The Board's policy is to enhance the Company's capital base by producing an annual operating surplus of approximately £100,000 prior to taking into account capital movements on the investment portfolio. This policy has ensured that the Company's capital base has continued to stay well ahead of the minimum required by the regulators, even after the effects of volatility in the Company's investments.

The Board is well aware that there is the risk that the Company's capital could be eroded by factors outside its control. Nevertheless, to date, ongoing difficulties experienced elsewhere in the banking sector have had little direct impact on the Company.

Liquidity

It is also crucial to ensure that at all times the Company holds sufficient liquid assets to enable it to repay its instant access depositors and to advance the loans approved by the Board on demand. Liquidity levels have, in fact, been maintained well above the minimum requirement throughout the year through a well-established process of daily monitoring to meet the Board's needs, which is in line with its policy and regulatory requirements.

Chair's Statement continued

The Company’s Vision

The Board recognises that the current financial reality of economic uncertainty may well continue for some time. However, the Company's policy of making loans to churches and associated organisations at the lowest practicable rate of interest will continue to be its priority. Within that broad policy, the Board is continuing to implement its strategy of promoting its loans to a range of churches and organisations, consistent with the aim of diversifying its core lending activity.

Loans

The Company’s loans advanced have grown significantly during the year. This increase can be seen in the graph of lending shown in the Loans section of the Strategic Report. This growing demand is expected to continue during the coming year in the form of increased enquiries and applications for loans for church property projects. In the case of some larger applications approved, these have not yet been advanced, mainly as a result of external factors such as planning permission taking longer than was originally anticipated. Several such large commitments are expected to be advanced during the first half of 2020.

Non--Methodist property loans account for over half of the total committed lending, demonstrating the success of the Board’s ongoing marketing strategy.

Deposits

Monies held on deposit with the Company increased during the year in line with the Board’s strategy, which is to maintain deposits at appropriate levels to support the Company’s growing lending activities and manage the associated risks.

Interest Rates

The Company has endeavoured, in these times of economic uncertainty, to reflect its appreciation of the loyalty of its depositors, by maintaining competitive interest rates. In addition, it will seek to keep its interest rates to borrowers as stable as possible and at the lowest practicable levels, in keeping with its main purpose.

Money market interest rates available to the Company generally remained low during the year. As a result, the interest rates paid on the Company’s savings accounts and charged on the property loans remained unchanged, consistent with the Company’s aim of charging the lowest practicable rate of interest to church borrowers.

It seems likely that interest rate pressures will continue to be felt during most if not the whole of 2020. Nevertheless, the Company aims to remain competitive and to provide a high quality of service to its customers.

Chair's Statement continued

Strategic Planning

An element of the Company’s governance policy and practice is for the Directors to meet specifically to review strategic issues in more depth. Such an event occurred in April 2019 and covered issues such as policy development (including a review of lending policy), sustainable lending growth, advertising and marketing, governance (including succession planning) and ensuring that the organisation adapts as appropriate to changing economic times. A further review meeting is to be planned during 2020.

The Company pursues a strategy of growing the loan portfolio in a careful and sustainable manner, and managing the level of deposits accordingly to achieve this objective. The formal strategic plan will continue to be reviewed annually by the Board and progress is monitored by management on a monthly basis.

Regulatory issues

The Board is liaising closely with the regulators in relation to those new requirements which become effective in 2020 and beyond. Whilst the new demands being made on institutions within the industry are significant, the Company is confident of fulfilling its obligations in this respect.

The Board

During 2019 there were no changes to the membership of the Board, and a continuing system of retirement and re-appointment of Directors by rotation remained fully operational. At recent meetings the Nomination Committee and the Board have each affirmed that the Board has a wide cross-section of experience and knowledge. Succession planning, including for the Chair, was also reviewed, and it is planned to appoint an additional Director during 2020.

I am indebted to the Directors for their ongoing commitment to the Company and their engagement with current issues. Their wide-ranging background knowledge and expertise is an invaluable asset to the Company and provides a sound base for oversight of the business, strategic planning and policy discussion.

The Staff

On behalf of the Board I would like to express my grateful thanks to each member of staff for their dedication and hard work throughout the year, Their loyalty and constant reliability are such a great assurance to the Directors and their input contributes significantly to the effective functioning of the organisation.

Alan Pimlott
Chair
3 January 2020

Strategic Report

The Directors have pleasure in presenting their Strategic Report for the year ended 31 December 2019.

Principal Activities

The Company's purpose is to give support to Christian churches and associated organisations, primarily by providing loans for building schemes at the lowest practicable rate of interest throughout the duration of each loan.

In support of the Company's purpose it:

- operates procedures for accepting deposits, seeking to ensure that every deposit is safe, and as far as possible generating a competitive level of interest for the depositor;
- pays only a nominal dividend to its shareholders; and
- pursues policies that seek to ensure the adequacy of both its capital base and its level of liquidity at all times.

The Memorandum and Articles of Association permit the Company to give support to Christian churches and associated organisations by making loans for purposes that are not building related, as is illustrated in a small way by the present car loan scheme for Methodist presbyters and deacons. However, the Board has no intention of amending its main focus of activity in the foreseeable future.

Board Strategy for the Company

The Board recognises its ongoing responsibility to keep under review its strategies through which it pursues its aims and objectives. Its strategic planning is focused mainly on lending to Christian churches and associated organisations and ensuring that the Company's business model remains sustainable.

The Board has adopted a Strategic Business Plan (SBP), a rolling 5-Year Plan setting out the Company's immediate and medium-term plans to meet its objectives. This takes account of the economic context in which the Company operates as a bank.

In developing the SBP, the Board has placed particular emphasis on the following areas:

a) ### Governance Review

The Board has continued to review its effectiveness during 2019 and ongoing work includes formalisation and implementation of succession planning and diversity strategy. These will be developed further during 2020.

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Strategic Report continued

b) **Company Model**
The Board has reviewed the structure of the organisation as a company limited by shares. Given the particular purposes of the Company and the fact that maximising returns to shareholders is not a priority for this organisation, the Board has explored other possible constitutional models. However, after obtaining external professional advice, no other model was identified which would better reflect the Company's purpose within the regulatory limitations.

c) **Advertising and Marketing**
The Board has an ongoing objective to develop its communication to target the churches in new and contemporary ways. The format and content of the Company's website and publicity material is reviewed regularly. Significant progress has been made in actively promoting the Company's loan services both to Methodist churches and to other denominations.

d) **Lending Policy**
A key aim of the strategy is to promote the Company outside the Methodist Church, primarily to the larger denominations and organisations. Optimum lending levels are identified and monitored in line with the SBP. Thus the level of drawn loans has grown significantly during 2019 in line with this strategy and non-Methodist property loans accounted for 53% of the total committed lending at the year-end.

The Board has carefully considered the risks associated with this growth and has adopted limits and early warning indicators which are monitored monthly.

e) **Sustainability Plans**
The Board has reviewed the risks to the sustainability of the Company, both in terms of fulfilling its primary purpose and in continuing to meet its regulatory obligations. It considered both the general economic environment and the recent strong interest and demand from church trustees. This has confirmed its belief that there is ongoing demand within the Christian churches for the Company's niche products. The basis for this assumption will continue to be reviewed at least annually.

The Company's key indicators of its long-term sustainability, namely adequate capital and sufficient liquidity, have proved to be very robust and remain substantially above internal targets and regulatory limits.

The SBP continues to be developed to take account of changing financial circumstances and the needs of the churches. Updated management information packs, including a review against targets, are included at each Board Meeting to enable Board members to maintain close supervision and to agree appropriate action.

Strategic Report continued

Strategy for 2020 and beyond

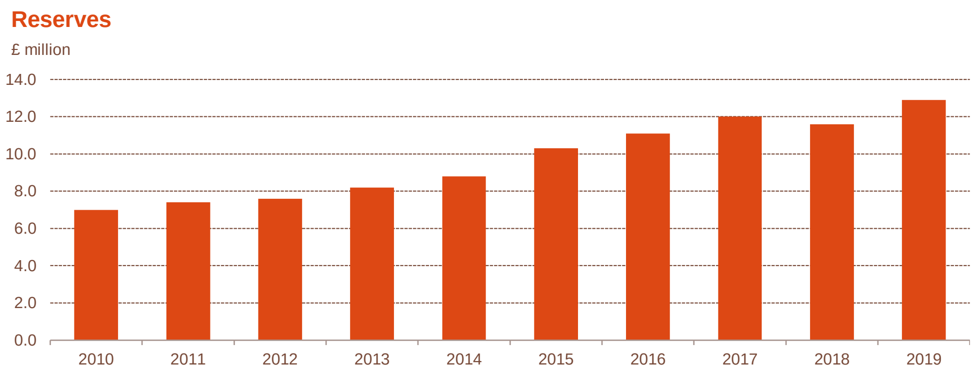
The Board's key aims for 2020 and beyond are to increase the Company's loan book in a controlled way to around £9 million by 2023 (although there remains the capacity for this figure to increase in line with demand), and to widen the Company's support for non-Methodist projects. However, the Board is clear that this planned growth should only be achieved from high-quality loan applications which satisfy the Company's risk assessment process. Internal limits (e.g. by borrower, denomination) are closely monitored within the Company's lending policy.

Growth in deposits is also planned, although at a lesser rate, consistent with the Company's own internal supervision of its optimum level for deposits.

Overall Performance in 2019

During 2019 an operating surplus of £157,235 was achieved, around £60,000 higher than that budgeted at the start of the year. This was largely as a result of savings in management expenses and higher interest income from the increasing level of property loans, particularly in the summer months when there was a large demand for short-term bridging loans to Methodist circuits to finance manse purchases.

This operating surplus was enhanced by positive net movements in the value of the Company's investments during the year. Therefore, the Company's reserves increased by £1,298,685 during 2019, more than offsetting the investment deficit in the previous year. The graph below shows the capital position over the past ten years:



The Company's Return on Assets for the year ended 31 December 2019 was 3.6% (2018: -1.3%). The year-on-year variance reflects the volatility in the equity markets.

Strategic Report continued

The Company's performance on loans, deposits and investments was as follows:

Loans

The Company's primary function is to make loans available to Christian churches and associated organisations at the lowest practicable rates of interest. The Board's strategy is to increase the overall level of lending, and also the proportion of lending to non-Methodist churches, primarily the larger denominations, whilst recognising and managing the associated risks.

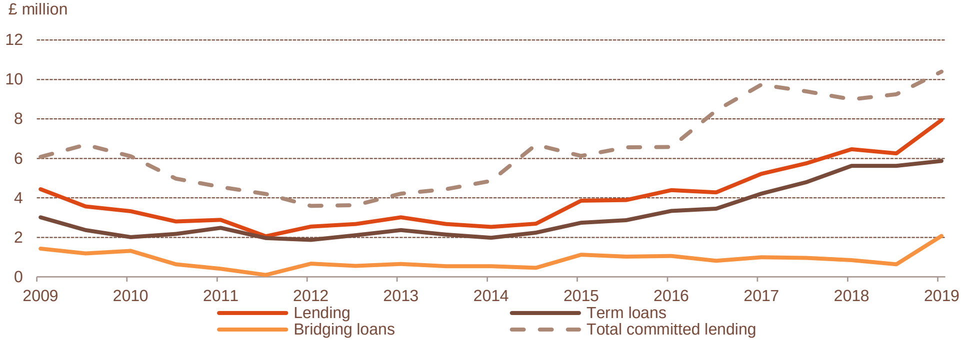
The table below shows the total value and number of loans over the past three years.

	Amount £m			Number of loans		
	2017	2018	**2019**	2017	2018	**2019**
Loan balances at year end						
Term loans	4.4	5.6	**6.0**	29	35	**41**
Bridging loans	0.7	0.7	**1.9**	4.	2	**6**
	5.1	6.3	**7.9**	33	37	**47**
Car loans	0.1	0.0	**0.0**	21	18	**8**
Total	5.2	6.3	**7.9**	54	55	**55**
Undrawn loans at year end	4.6	2.8	**2.3**	13	10	**10**
Total drawn and undrawn loans	**9.8**	**9.1**	**10.2**	**67**	**65**	**65**
Loan advances during year						
Property loans	3.1	4.0	**3.9**	14	21	**24**
Car loans	0.0	0.0	**0.0**	4	2	**1**
	3.1	**4.0**	**3.9**	**18**	**23**	**25**

The benefits of the Company's ongoing advertising and marketing strategy are continuing to be realised with a 25% increase in property loan balances during 2019. This is shown in the graph below. In addition, enquiries have been made about loan facilities for some further significant projects and preliminary discussions have already taken place to assess their feasibility.

With regard to interest rates, those charged by the Company for property loans remained unchanged during the year. The standard rate is 2.90% (2.94% APR including fees) for term loans and 3.90% (4.05% APR including fees) for bridging loans. The Company's rate for car loans has remained at 5.00% APR fixed with a 0.5% discount incentive for car loan applicants who choose to purchase a car with low carbon dioxide emissions, i.e. one which falls within bands A to F of the government's car tax banding system.

Total lending to Christian churches and associated organisations



Short term bridging loans account for approximately 24% of the total loans as at 31 December 2019. This proportion is lower than has been the case in the past, e.g. at one exceptional point in 2008 the percentage had reached nearly 80%. This change has resulted in a more sustainable and stable loan book.

Deposits

The Board's strategy in relation to deposits is to maintain these at appropriate levels to support the Company's lending activities and manage the associated risks.

The Company would like to thank its depositors for their support and loyalty, particularly during the ongoing difficult economic conditions. By the diligent and ethical investment of these funds, a large proportion of which remain with the Company for many years, the Company plans the future growth of its capital base and is able to provide loans to Christian churches and associated organisations at the lowest practicable rate of interest throughout the duration of each loan.

The Company always seeks to ensure that every deposit is kept safe, and that as far as practicable it generates a competitive level of return. Money market interest rates available to the Company generally remained low during the year. As a result, the Company's savings rates for all account types remained unchanged.

The Company's participation in the Financial Services Compensation Scheme, which guarantees £85,000 of each eligible depositor's savings in the event of the failure of the Company, has enabled customers to continue to deposit with confidence.

Strategic Report continued

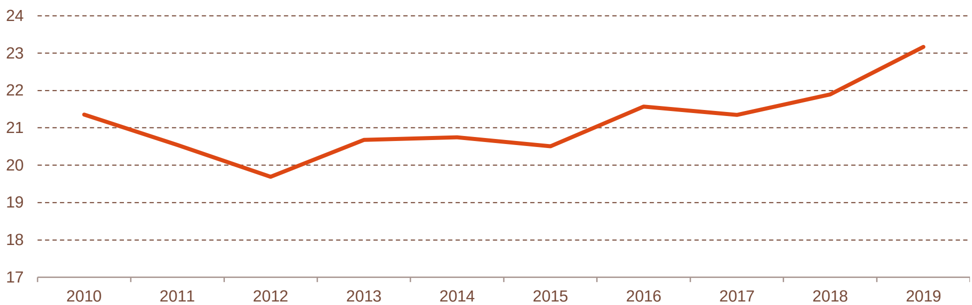
As shown in the graph below, the amount held on deposit with the Company increased slightly during the year in line with the Board's strategy, with the total as at 31 December 2019 being £23,169,408. Withdrawals during the year represented 11% of the balance of deposits at the start of the year and new deposits and interest applied amounted to 17%.

The Company opened 44 new savings accounts during the year. The total number of accounts held with the Company totalled 3,112 as at 31 December 2019 (3,164 in 2018). The total amount held on deposit as at 31 December 2019 included 40% held in Premium Plus Accounts, 22% in ISAs and 12% in Child Trust Fund (CTF) Accounts.

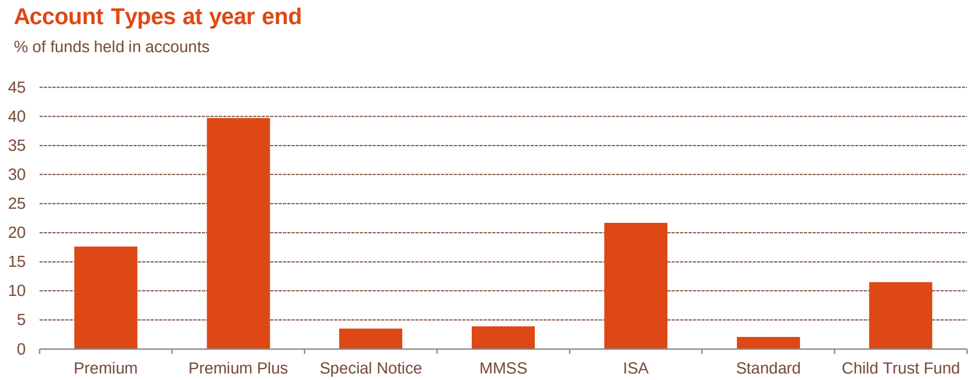
The Company continues to hold three major deposits from the Methodist Church Fund for Property, London Mission Fund and Mission in Britain Fund with total balances of £800,000 held on two years' notice of withdrawal.

Deposits at year end

£ million



Strategic Report continued



Investments

The Company holds an investment portfolio to generate income and long term capital growth to support its primary purpose of lending to Christian churches and associated organisations for property projects at the lowest practicable rates. This portfolio is carefully managed within Board-approved limits.

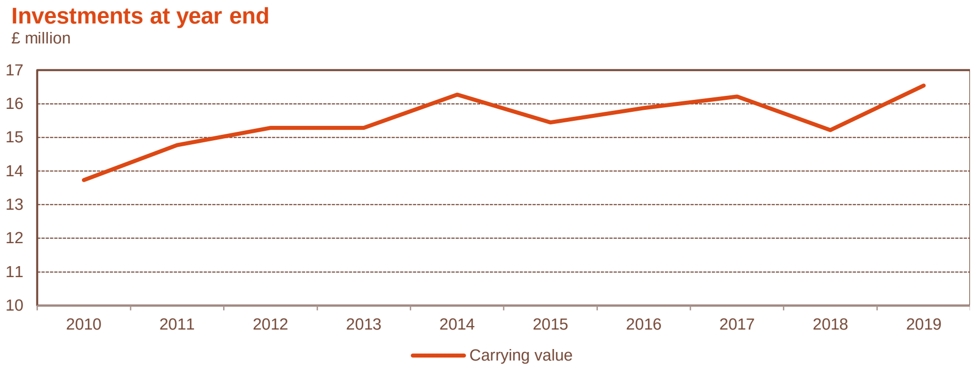
As at 31 December 2019 the total carrying value of equity shares and debt securities amounted to £16,539,540 (2018: £15,218,614). This comprised £3,790,401 (2018: £3,457,024) dated treasury stocks, £1,611,317 (2018: £1,851,051) commercial loan stocks, £2,769,026 (2018: £2,649,793) bond funds and £8,368,796 (2018: £7,260,746) equity shares and similar investments. In addition, the Company held £10,947,148 of cash and deposits with other UK financial institutions (2018: £10,984,433).

A provision for the amortisation of the premium of dated treasury and commercial loan stocks was made amounting to £69,882 for the year (2018: £61,467). This is the write-off of the difference between the purchase price of a bond and its final maturity value, over the remaining term. The total provision is now £312,588 (2018: £281,568).

There was a positive fair value adjustment to the Company's investment portfolio in the year of £1,402,028 (2018: negative adjustment of £754,426) which is shown in the Statement of Income and Retained Earnings. The change in the total market value of the investments is shown in the graph overleaf.

It is important to note the Company's policy of holding investments is for the long term and that it is not an investment trading company. The Company continued to be grateful to its Investment Manager, Sarasin & Partners LLP, for its services provided during the year.

Strategic Report continued



Ethical Investment

The Company's policy statement on ethical investing reads as follows:

"The Company will not invest directly in the securities of companies active in the tobacco, alcohol, gambling, pornography, armaments or thermal coal/oil sands sectors. Where such activities account for more than 10% of corporate turnover the company will be deemed to be "active" in these restricted sectors.

The Company will also seek to adhere to the Christian moral imperative to exercise good stewardship, and may accordingly from time to time determine not to hold securities issued by particular companies where there are concerns regarding the ethics of their business or operational models. The Company is particularly concerned about the animal testing of cosmetic or household products, high interest consumer lending, intensive farming, and the treatment of employees in jurisdictions where employment rights are less well developed than in the UK.

The Company will seek to ensure that voting rights are exercised in accordance with good corporate governance criteria, and will periodically review the manner in which its investment manager exercises these rights on its behalf.

Despite the above, the Company recognises that it will sometimes be necessary for it to hold collective investment funds in order to secure asset allocation within its investment portfolio. Where this is the case the Company will not have the ability to screen the underlying portfolio of the fund."

The above policy is implemented by Sarasin & Partners LLP, the Company's Investment Manager. This is in addition to the Investment Manager's own ethical policies and practices.

Strategic Report continued

Other Matters

Capital Adequacy

The Company holds capital in order to provide a buffer against possible losses in times of financial stress. In common with all other UK banks the Board carried out rigorous stress testing on its capital and liquidity levels during 2019 and calculated that in addition to the minimum requirement of €5 million a further internally-calculated capital buffer should be retained as a buffer against future stresses on the Company's capital resources, although there has never been a need to call upon this buffer. Even after making this allowance and including regulatory deductions, there remained substantial headroom above the combined €5 million and buffer threshold.

Looking ahead, the Board has budgeted for an operating surplus in 2020 of approximately £100,000.

The Board is committed to reviewing its Internal Capital Adequacy Assessment Process (ICAAP) at least annually, and more frequently if necessary. A statement showing the current position on capital adequacy as calculated within the framework of the ICAAP document is presented at each meeting of the Board.

Risk Appetite Statement

The Company's management operate a low to medium risk strategy in meeting the Company's objectives. This is reflected in the type and level of risk to which the Company is exposed when compared with appetites and risk profiles demonstrated by other UK financial institutions whose business model is similar in terms of size and level of complexity.

Principal Risks

The principal risks faced by the Company are:

Business Risk

Business risk arises from changes to a company's business, specifically the risk of not being able to carry out its business plan and desired strategy. In assessing business risk, consideration is given to internal and external factors.

Risk Appetite

The Company will not take, or retain, risk positions that threaten its ability to remain a sustainable organisation or its ability to meet its primary purpose. The business risk appetite is set by reference to the approved budget and Strategic Business Plan sanctioned by the Board.

Mitigation

As part of the annual budgeting and planning process, the Company develops a set of management actions to prevent or mitigate any negative impact on earnings in the event that business risks materialise. Additionally, business risk monitoring, through regular reports and oversight, enables the Company to implement corrective actions to plans and reductions in exposures where necessary.

Revenue and capital investment considerations require additional in-depth assessment followed by Board approval. Formal risk assessment is conducted as part of all financial approval processes.

Liquidity Risk

Liquidity risk is the risk that a company does not have sufficient financial resources to meet its commitments when they fall due, or can secure them only at excessive cost, or that a company does not have sufficiently stable and diverse sources of funding.

Risk Appetite

The Company's liquidity risk appetite has two elements: its own internal liquidity measurement and also the regulatory liquidity coverage ratio:

a) Internal measurement

The Company ensures that it maintains a minimum liquidity position sufficient to meet a demand for payment of all retail deposits repayable within 8 days, even under stressed scenarios. The Board and the Company's management operate a low risk strategy when compared with liquidity levels and risk profiles of other UK financial institutions with similar business models and this is reflected in the measures that the Company has in place to monitor liquidity. The Company has undertaken stress tests in this regard.

If the Company can easily achieve this test then it has sufficient liquidity not only for the 0 to 8 day period, but also for a minimum of 90 days due to the nature of the depositor maturity and loan advance profile.

Therefore, the Company has also adopted a liquidity risk appetite based on maintaining sufficient liquid assets to cover at least 100% of anticipated outflows under a 90 day continuous period of market-wide, Company-specific and combined stresses.

b) Liquidity coverage ratio (LCR)

The Company's policy is to maintain a LCR of at least 200% at all times, i.e. double the regulatory minimum, and using only extremely high liquidity and credit quality (level 1) assets, i.e. UK gilts, European Investment Bank (EIB) and KfW bonds.

Additional liquid assets will also be held for internal liquidity management.

Mitigation

The Company mitigates the risk of a negative liquidity mismatch (inadequate liquidity) which is outside its appetite by managing the liquidity profile of the statement of financial position through both short-term liquidity management and long-term strategic funding.

The Company aims to maintain a minimum liquidity position that is well in excess of regulatory requirements, even under stressed scenarios, reflecting the organisation's low risk appetite.

Market and Interest Rate Risk

Market and interest rate risk could arise from adverse movements in external markets, e.g. interest rate movements, equity movements or currency movements which could potentially reduce income and/or increase expenses.

Risk Appetite

The Board's risk appetite for interest rate risk is to manage its assets and liabilities so as to limit the effect of a 2% market rise in interest rates (as calculated in the interest rate gap report) to a maximum of 7% of the Company's regulatory capital.

The average remaining period to maturity for fixed interest investments (excluding investments held by bond funds) will not exceed 8½ years.

In addition, no fixed interest investment will be held with a remaining maximum term of longer than 15 years.

The Board acknowledges that there is some additional interest rate sensitivity within the equity and bond fund holdings. Consequently, the Company will not hold investment assets with no specific maturity date (i.e. equities, bond funds and other collective investment schemes) with a total value exceeding 100% of the Company's regulatory capital.

Strategic Report continued

The Board has decided to limit the total amount invested in equities (including equity related investment funds) to the lower of:

- 45% of the total market value of funds in its investment portfolio i.e. excluding money market investments and loans to trustees and individuals;
- 25% of the Company's total assets; and
- 80% of regulatory capital.

In relation to UK equities, only equities issued by companies within the FTSE 350 can be purchased, thereby ensuring that a high quality is maintained and that the liquidity of such investments is not a problem. Corporate bonds are highly rated sterling-denominated direct investments in quoted companies. The Company has no direct exposure to foreign exchange risk as it does not trade in these markets or in currencies other than Sterling.

The Company does not offer any fixed rate deposit or loan products other than car loans (limited to £250,000 in total) and therefore can respond appropriately to movements in market interest rates, within the framework of giving at least 3 months advance notice of any reduction in interest rates payable to customers.

Mitigation

The Company has restricted its investments to highly rated, easily realisable fixed interest and equity stocks. The Company does not expect to incur significant losses upon the sale of these investments.

With regard to interest rate risk the Company's Treasury Policy Statement includes limits for both the average remaining period and the maximum remaining period to maturity for fixed interest investments (excluding investments held by bond funds).

Trigger points are in place in order to respond quickly to adverse market value movements.

Operational and Regulatory Risk

Operational risk is the risk of reductions in earnings through financial or reputational loss, from inadequate or failed internal processes and systems, operational inefficiencies, or from people related or external events.

Regulatory risk arises due to ever increasing regulatory requirements and the increasing volume and pace of change from within the UK and European financial regulators. This can impact a company, both operationally in terms of cost of compliance, with uncertainty about legal and regulatory expectations, and strategically through pressure on key earnings streams.

Risk Appetite

The Company's operational risks arise largely as a result the following possible events:

- Business disruption (including failure of key suppliers)
- Fraud and forgeries
- Fines and penalties (including regulatory)
- Staffing issues (including long term sickness)
- Health and safety issues
- Legal cases

The Company looks to ensure that it adopts all regulatory, legal and other compliance requirements in a proportionate way.

The Company's operational/regulatory risk appetite is to limit the expected potential losses arising from these events to 2% of the Company's Own Funds (i.e. regulatory capital) in total.

Mitigation

The Company undertakes the following:

- identification of the key operational risks within the business;
- evaluation of the effectiveness of the existing control framework covering each of the key risks to which the business is exposed;
- evaluation of both the financial risk and non-financial risk (e.g. reputational damage);
- estimation of exposure to probability and event likelihood for each material risk identified; and
- appropriate action to mitigate or minimise the risk.

The above is embedded into the Company's daily procedures.

Credit Risk

Credit risk is the risk of a reduction in earnings and/or capital, as a result of the failure of a party with whom a company has contracted to meet its obligations as they fall due (i.e. loan repayments, investments or bank deposits).

Credit risk appetite (wholesale markets)

The Company will not engage in wholesale deposit lending other than with UK interbank counterparties with strong long-term credit ratings (minimum Moody's rating of Baa3 for UK banks / building societies and A3 for overseas banks / building societies), or allow placements exceeding the Company's large exposures capital base (subject to the PRA pre-notification rules). The amount of deposits placed with any one bank is limited to 25% of the Company's regulatory capital.

In addition, the Company invests in UK government gilts and major company corporate bonds via its Investment Manager, Sarasin & Partners LLP which operates within parameters and limits agreed by the Board. The corporate bonds are all sterling denominated and the bond portfolio is considered by the Investment Manager to be low risk and well diversified.

Mitigation

After careful checks have been made, the counterparties with whom the Company places deposits are approved in advance by the Board.

Credit risk appetite (retail markets)

The Company lends to Christian churches and organisations within the UK only and the total balance on loan at any time is restricted to an internally imposed limit of 70% of the total depositors' balances or 150% of share capital plus reserves, whichever is the lower, less any non-instant access deposit accounts held by the Company with other financial institutions. Individual loan approvals cannot be greater than 10% of the Company's regulatory capital unless agreed by the Board. Term loans above £60,000 are secured by way of a declaration from the trustees as well as a legal charge (unless agreed otherwise by the Board) and loans up to £60,000 by way of a declaration from the trustees. For bridging loans for manse purchases a solicitor's undertaking is obtained to repay the proceeds of the house sale to the Company up to the amount of the loan outstanding.

Car loans to individuals (Methodist presbyters and deacons) are limited to a total balance advanced of £250,000 and a maximum loan of £12,000 per individual.

Mitigation

Financial risk assessments are undertaken on all term property loans (including review of accounts covering three years) and loans are approved in accordance with defined limits and due consideration given to the collateral. All property loans require Director approval in accordance with the Company's lending policy.

Capital Risk

Capital risk is defined as the risk that a company has insufficient capital to provide a resource large enough to absorb losses or that the capital structure is insufficient to meet regulatory requirements.

Risk Appetite

The Company's target is to maintain its capital resources at a level which is increasingly above the €5 million regulatory minimum plus an internally calculated buffer to cover potential stresses as identified in the Company's Internal Capital Adequacy Assessment Process (ICAAP) document.

Mitigation
The Company has developed an early warning system to enable the occurrence of the risks to its capital base to be quickly identified and corrective action taken where necessary.

The Company adopts a prudent and responsible approach to the management of capital and has prepared a detailed ICAAP document which was approved by the Board.

The Board of the Company accepts that there is inherent risk in running a banking business; however, it is the Company's policy to minimise the unavoidable risks and further mitigate them wherever the costs of doing so are proportionate to the potential impact.

Remuneration Risk

The Company seeks to ensure that its remuneration decisions are in line with its business strategy and long-term objectives, and consistent with the Company's ethos, current financial condition and future prospects.

The Company's staff and non-executive Directors are keen to support the work of the Company in furthering the work of Christian churches and associated organisations, as well as protecting depositors and fulfilling the Company's regulatory obligations.

In view of this, the Company does not have any bonus schemes or other reward or compensation schemes in place to reward staff for performance.

Pillar 3 disclosures

A fuller description of these risks and controls can also be found in the Company's Pillar 3 Disclosure Statements for the year ending 31 December 2019. These disclosures are published in the Financial Information section of the Company's website:
https://www.mcafundingforchurches.co.uk/financial-information.

Treatment of Customers

As part of its policy of continuous improvement the Company strives to ensure that its customers are treated fairly at all times. Reviews of the Company's performance towards its customers occur on an annual basis and corrective action will be taken whenever necessary.

In the final quarter of 2019, the Board sent out a further Customer Satisfaction Survey to a proportion of its depositors, borrowers with property loans and borrowers with car loans. The results are summarised overleaf. A 6 point score total was used, 6 being the best score. Only one of the 62 replies received implied concern by using scores 1 to 3.

Strategic Report continued

Customer survey satisfaction results:

	Depositors (score out of 6)	Borrowers (score out of 6)
Level of satisfaction with documentation provided by MCA		
(a) clarity and conciseness of content	5.5	5.8
(b) quality of presentation	5.5	5.7
Level of satisfaction with communication and assistance provided by MCA		
(a) before the account was opened	5.5	6.0
(b) after the account was opened	5.5	6.0

No complaints were received from customers during 2019.

Signed by order of the Directors

Steven Jones BA FCCA
Company Secretary

Registered office:
1 Telford Terrace, Albemarle Road, York, YO24 1DQ

Approved by the Directors on 18 February 2020

Directors' Report

The Directors have pleasure in presenting their report and the financial statements of the Company for the year ended 31 December 2019.

Directors

The Directors who served the Company during the year together with their beneficial interests in the shares of the Company were as follows:

	Ordinary A shares of £0.25 each		Amounts held on deposit	
	At 31 Dec 2019 No.	At 31 Dec 2018 No.	**At 31 Dec 2019 £**	At 31 Dec 2018 £
Alan Pimlott	**143**	143	**–**	19,765
Peter Mills	**175**	175	**–**	–
James Booth	**–**	–	**–**	–
Jeremy Burchill	**200**	200	**–**	–
Paul Ferguson	**–**	–	**–**	–
Peter Forward	**200**	200	**–**	–
Anne Goodman	**–**	–	**–**	–
Christopher Jarratt	**61**	61	**–**	–
Andrew Slim	**166**	166	**76,027**	65.368
	945	945	**76,027**	85,133

Corporate Governance

Whilst Methodist Chapel Aid Limited, a private limited company, is not governed by the requirements of the London Stock Exchange, the following disclosures in connection with corporate governance are made voluntarily to comply with accepted best practice. These disclosures do not necessarily cover all aspects on which the Company would have to report were it subject to the requirements of the London Stock Exchange, but do cover those aspects which are considered to be most relevant to the Company.

The Board of Directors, which meets at least five times a year, directs and controls the work of the Company. With the exception of the Chief Executive, the Directors are all non-executive and the Board is supplied, through the offices of its Chief Executive and Company Accountant, who is also its Company Secretary, with information in the form of monthly management accounts, budgets, forecasts, etc. to allow it to discharge its responsibilities.

The Company has an Audit and Risk Committee, consisting of four non-executive Directors (Jeremy Burchill (Chair), James Booth, Anne Goodman and Peter Mills), which meets at least four times annually and ensures that the recommendations of the Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA) and the external auditor are considered and implemented. Other Directors are invited to attend its meetings. It also oversees the work and considers the reports of the Company's internal audit function, reviewing the implementation of its recommendations where appropriate, and considers the effectiveness of internal controls. To comply with the requirements of legislation and to ensure prudent management of the business, the Company has established a range of internal controls, which have operated effectively throughout the year.

In addition, the Company has a Nomination Committee, consisting of three non-executive Directors (Alan Pimlott, Paul Ferguson and Peter Mills) which was established to develop a recruitment and remuneration strategy together with succession plans for the Board, its Committees and Senior Officers. This also includes developing training and induction processes for Directors and reviewing the Board's employment policy and practice.

In achieving high standards of corporate governance the Company has taken into account the relevant features of the UK Corporate Governance Code.

Supervision

The Company is authorised by the PRA and regulated by the FCA and the PRA. Throughout the year the Company has kept within the regulators' guidelines and there has been frequent contact between the Company and the regulators as part of the monitoring process, including an annual visit to the Company by the PRA.

Proposals

- The Directors propose a dividend of 22.10 pence per fully paid A share and £8.84 per fully paid B share of the Company, payable on 30 April 2020. (Detailed in note 10 of the financial statements).
- Jeremy Burchill, Paul Ferguson and Peter Mills retire by rotation and, being eligible, offer themselves for re-election for a three-year term.
- The independent auditor, Beever and Struthers, has indicated its willingness to continue in office and, following a re-tendering process, its appointment for 2020 is proposed.

Directors' Report continued

Donations

For many years the Company's policy has been to make donations at the level of 10% of the previous year's operating surplus to a number of Christian charities reflecting the Company's business and heritage. During the year the Company made the following contributions to 7 charities (2018: 7 charities):

	2019 **£**	2018 £
Charitable donations	**18,200**	15,000

Strategic Report

The Company has chosen in accordance with section 414C(11) of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 to set out in the Company's Strategic Report information required by schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

Directors' Responsibilities Statement

The Directors are responsible for preparing the Strategic Report, the Directors' 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 the surplus or deficit of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

Directors' Report continued

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as they are aware, there is no relevant audit information of which the Company's independent auditor is unaware; and
- they have taken all steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Signed by order of the Directors

Steven Jones BA FCCA
Company Secretary

Registered office:
1 Telford Terrace, Albemarle Road, York, YO24 1DQ

Approved by the Directors on 18 February 2020

Independent Auditor's Report to the Shareholders of Methodist Chapel Aid Limited

Opinion

We have audited the financial statements of Methodist Chapel Aid Limited (the 'Company') for the year ended 31 December 2019 which comprise the Statement of Income and Retained Earnings, the Statement of Financial Position, the Statement of Cash Flows and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 (FRC) Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report to the Shareholders of Methodist Chapel Aid Limited continued

Conclusions Relating to Going Concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the 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.

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) we identified, including 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 prepare a separate opinion on these matters.

Independent Auditor's Report to the Shareholders of Methodist Chapel Aid Limited continued

Key Audit Matter	How Our Audit Responded to the Key Audit Matter
Property Loan Provisioning At **31 December 2019 the property loan book totalled £7.86m (2018: £6.27m) as shown in note 13 of the financial statements. No provision has been recorded against these loans**. The **determination of impairment provisions is a highly subjective and judgemental area and there is regulatory scrutiny with respect to provisioning levels. Note 2 to the financial statements (accounting policies) discloses the provisions policy. The loan provision is considered a key source of estimation uncertainty and this is disclosed within the accounting policies notes – Judgements and key sources of estimation uncertainty**. The **Company has expanded its loan lending criteria in recent years and has seen an increase in concentration risk due to fewer, but individually larger, loans**. We **have identified property loan provisioning as one of the most significant assessed risks of material misstatement. On this basis we have identified this as a key audit matter and this is unchanged from the previous year**.	Our audit work included but was not restricted to the following: • We understood and assessed the loan application procedure including, where applicable, the challenge by the Board of the loans recommended for approval. We tested the adherence to the loan lending and security taking policy and found the procedures in place were operating effectively. • We understood and evaluated management's criteria for determining whether an impairment event had occurred and therefore whether there was a requirement to calculate an impairment provision. Each loan was considered for impairment individually. No loans were identified as impaired at the balance sheet date for which the Company did not have satisfactory security. • We reviewed all loans outside the repayment terms at the balance sheet date for recoverability. These are disclosed in note 18 of the financial statements. Additionally, we specifically reviewed each extended loan for indicators of impairment. No loans were identified as impaired at the balance sheet date for which the Company did not have satisfactory security. Based on the procedures performed and evidence obtained, we found management's assumptions to be reasonable and did not identify any issues or misstatements that require reporting to the Audit and Risk Committee.

Independent Auditor's Report to the Shareholders of Methodist Chapel Aid Limited continued

Our Application of Materiality and an Overview of the Scope of the Audit

Our audit work is based upon an assessment of materiality to identify misstatements contained in the financial statements considered fundamental to the reader. We consider the materiality of a misstatement to the class of transaction or balance to which it belongs and the overall impact of the balance on the statement of income and retained earnings account and the statement of financial position. An item would be considered material to the financial statements if, through error or non-disclosure, the financial statements would no longer show a true and fair view.

The materiality for the financial statements as a whole for the year ended 31 December 2019 was £318,000 (2018: £296,000) determined with reference to the average of the following benchmarks:

- 2.5% of turnover
- 5% of operating surplus
- 4% of net assets
- 2% of gross assets

The benchmarks above are considered to be the most appropriate for the calculation of materiality given the difference in quantum between the assets and liabilities when compared to the income and expenditure.

We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality. We also determine lower levels of specific materiality for certain areas such as Board Members' remuneration and related party transactions.

We determined the threshold at which we will communicate misstatements to the Audit and Risk Committee to be £15,000.

Additionally, we communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The materiality calculated has been applied to our audit work at the planning stage which included, but was not restricted to, a review and testing of the operation of key controls within the business in relation to revenue, interest payment, payroll and loan authorisation procedures. Materiality was applied to the undertaking of substantive testing on significant transactions and material account balances.

The scope, nature, timing and extent of our audit procedures performed was determined by our risk assessment and was communicated to the Audit and Risk Committee through our audit plan.

Independent Auditor's Report to the Shareholders of Methodist Chapel Aid Limited continued

Other Information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information. 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 this regard.

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.

Matters on Which We are Required to Report by Exception

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 material misstatements in the Strategic Report or the Directors' Report.

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

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

Independent Auditor's Report to the Shareholders of Methodist Chapel Aid Limited continued

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.

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.

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

Ability to Detect Irregularities

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the Directors and other management (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

We did not identify any such irregularities however as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

Independent Auditor's Report to the Shareholders of Methodist Chapel Aid Limited continued

Other Matters which we are Required to Address

We were appointed by the Directors of the Company on 16 December 2010. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is ten years.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting our audit.

In addition to audit services, we provide the following assurance services to the Company:

- assistance with the preparation of the financial statements from management accounting records; and
- assistance with submission of the corporation tax return following approval of the accounts.

Our audit opinion is consistent with the additional report to the Audit and Risk Committee.

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.

Suzanne Lomax BA FCA
(Senior Statutory Auditor)

For and on behalf of

Beever and Struthers
Chartered Accountant & Statutory Auditor

St. George's House, 215-219 Chester Road, Manchester, M15 4JE

18 March 2020

Statement of Income and Retained Earnings
For the year ended 31 December 2019

	Note	2019 £	2018 £
Interest receivable – on loans	3	**216,819**	188,593
Interest receivable – on debt securities	3	**321,383**	322,478
Interest receivable – on National Savings and bank deposits	3	**71,244**	57,941
Interest payable to depositors		**(229,881)**	(206,421)
Interest payable - amortisation of debt securities	12	**(69,882)**	(61,467)
Dividend income from equity shares	3	**259,323**	261,860
Investment gains on debt securities		**4,366**	37,062
Fees and commissions payable to Investment Manager		**(43,816)**	(51,541)
Other operating income	4	**5,692**	3,666
Administrative expenses – staff costs	7&8	**(198,443)**	(191,928)
Administrative expenses – other		**(162,438)**	(159,701)
Depreciation	11	**(17,132)**	(18,651)
Operating surplus	5	**157,235**	181,891
Fair value adjustment to investments	12	**1,402,028**	(754,426)
Surplus/(Deficit) on ordinary activities before taxation		**1,559,263**	(572,535)
Tax on surplus/(deficit) on ordinary activities	9	**(259,537)**	143,868
Surplus/(Deficit) for the financial year and total comprehensive income		**1,299,726**	(428,667)
Dividends paid and payable	10	**(1,041)**	(1,018)
Retained earnings at the start of the year		**11,567,564**	11,997,249
Retained earnings at the end of the year		**£12,866,249**	£11,567,564

All the activities of the Company are from continuing operations.

The notes on pages 35 to 55 form part of these financial statements.

Statement of Financial Position
As at 31 December 2019

	Note	2019 £	2018 £
Assets			
Tangible fixed assets	11	**22,084**	32,058
Investments	12	**16,539,540**	15,218,614
Cash and bank balances		**10,947,148**	10,984,433
Loans and advances to customers	13	**7,888,087**	6,315,264
Prepayments, accrued income and other assets	13	**110,945**	93,275
Investments held for short term purposes	14	**862,056**	892,171
Total Assets		**36,369,860**	33,535,815
Liabilities			
Customer Accounts	15	**23,169,408**	21,897,604
Other Liabilities	15	**75,034**	64,494
Total Liabilities		**23,244,442**	21,962,098
Provisions			
Taxation including deferred tax	16	**257,972**	4,956
Net Assets		**£12,867,446**	£11,568,761
Shareholders' Funds			
Called up equity share capital	19	**1,197**	1,197
Reserves		**12,866,249**	11,567,564
		£12,867,446	£11,568,761

These financial statements were approved by the Board of Directors and authorised for issue on 18 February 2020, and are signed on behalf of the Board by:

Alan Pimlott
Chair

Peter Mills
Director

Christopher Jarratt
Director

Company registration number: 30546

The notes on pages 35 to 55 form part of these financial statements.

Statement of Cash Flows
For the year ended 31 December 2019

	2019 £	2018 £
Cash flows from operating activities		
Surplus/(Deficit) for the financial year	**1,299,726**	(428,667)
Adjustments for:		
Depreciation of tangible assets	**17,132**	18,651
Amortisation of investments	**69,882**	61,467
Fair value adjustment to investments	**(1,402,028)**	754,426
Tax on surplus/(deficit) on ordinary activities	**259,537**	(143,868)
Accrued income/expenses	**4,021**	6,448
Changes in:		
Trade and other debtors	**(17,540)**	4,806
Trade and other creditors	**(132)**	1,229
Loans advanced to customers	**(1,572,823)**	(1,104,343)
Customer accounts	**1,271,804**	552,819
Cash absorbed by operations	**(70,421)**	(277,032)
Tax paid	**-**	(26,344)
Net cash used in operating activities	**(70,421)**	(303,376)
Cash flows from investing activities		
Purchase of tangible assets	**(7,158)**	(280)
Purchase of investments	**(1,963,524)**	(2,818,014)
Proceeds from sale of investments	**1,974,744**	2,996,313
Net cash from investing activities	**4,062**	178,019
Cash flows from financing activities		
Dividends paid	**(1,041)**	(1,018)
Net cash used in financing activities	**(1,041)**	(1,018)
Net decrease in cash and cash equivalents	**(67,400)**	(126,375)
Cash and cash equivalents at beginning of year	**11,876,604**	12,002,979
Cash and cash equivalents at end of year	**£11,809,204**	£11,876,604
Consisting of		
Cash	**10,947,148**	11,252,440
Short term liquid investments	**862,056**	750,539
Cash and cash equivalents at end of year	**£11,809,204**	£12,002,979

The notes on pages 35 to 55 form part of these financial statements.

Notes to the Financial Statements

1 General Information

The Company is a private company limited by shares and incorporated in England. The address of its registered office is 1 Telford Terrace, Albemarle Road, York, YO24 1DQ.

The Company's purpose is to give support to Christian churches and associated organisations, primarily by providing loans for building schemes at the lowest practicable rate of interest throughout the duration of each loan.

2 Accounting Policies

Statement of Compliance

These financial statements have been prepared in compliance with United Kingdom Generally Accepted Accounting Practice including FRS 102, 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland' as well as the Companies Act 2006.

Basis of Preparation

The Company is an authorised institution under the Financial Services and Markets Act 2000 and therefore in accordance with Section 478 of the Companies Act 2006 these financial statements are prepared in accordance with applicable accounting standards, together with relevant British Bankers' Association Statements of Recommended Practice (SORP) and the special provisions of Statutory Instrument 2008 No 410 Schedule 2 part 1 Section A of the Companies Act 2006 relating to banking companies.

The financial statements are prepared in Sterling, which is the functional currency of the.

Going Concern

The Company's business activities, together with the factors likely to affect its future development, finances, performance position, liquidity and cashflows are set out in the Chair's Statement, the Strategic Report and the Directors' Report. The Company's objectives, together with a summary of its policies and procedures for managing its capital risk management objectives and its exposures to interest, liquidity and credit risk are referred to in the Strategic Report.

The Company has sufficient financial resources and as a consequence the Directors believe it is well placed to manage its business risks successfully despite the current uncertain economic outlook.

Based on a rolling 5-year plan which has been approved by the Board and after making enquiries, the Directors consider there to be a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the going concern basis in preparing the Annual Report and the Financial Statements has continued to be adopted.

Notes to the Financial Statements continued

2 Accounting Policies continued

Judgements and Key Sources of Estimation Uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported. These estimates and judgements are continually reviewed and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

Accounting estimates and assumptions are made concerning the future and, by their nature, will rarely equal the related actual outcome. The key assumptions and other sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- Determination of recoverability of loans made to customers:

  Property loans: A specific provision is made against customer loans, where, in the opinion of the Directors, the loan is not fully recoverable. An impairment provision of £nil (2018: £nil) was recognised in respect of property loans totalling £7,860,512 (2018: £6,267,194) of which £1,039,071 (2018: £477,458) are unsecured. Note 18 contains further details of the impairment consideration.

  Car Loans: A general provision is made against those unsecured advances which have not been specifically identified as impaired, but where the Company's experience and the general economic climate indicate that losses may ultimately be realised. A general provision of £707 (2018: £1,232) has been recognised in respect of car loans totalling £28,282 (2018: £49,302).

Significant judgements

Management have not made any significant judgements (apart from those involving estimations) in the process of applying the entity's accounting policies that have a significant effect on the amounts recognised in the financial statements.

Revenue and Expenses Recognition

Investment Income

Dividend income received from equity shares is accounted for on the basis of cash received and excludes the attributable tax credit.

Provision is made for the gross amount of interest accrued on fixed interest bearing securities on an effective interest rate ('EIR') basis. The EIR being the rate that, at the inception of the financial asset, exactly discounts expected future cash payments and receipts over the expected life of the instrument back to the initial carrying value.

Notes to the Financial Statements continued

2 Accounting Policies continued

Revenue and Expenses Recognition continued

Interest receivable

Interest receivable on loans is credited to income twice yearly in line with the terms of the loan agreements and is recognised in the statement of income and retained earnings on an accruals basis.

Interest payable

Interest payable on deposit accounts is charged to expenses twice yearly in line with the terms of the accounts and is recognised in the statement of income and retained earnings on an accruals basis.

Other income and expenses

Other income and expenses are recognised on an accruals basis.

Income Tax

The taxation expense represents the aggregate amount of current and deferred tax recognised in the reporting period. Tax is recognised in income or expenditure, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, tax is recognised in other comprehensive income or directly in equity, respectively.

Current tax is recognised on taxable surplus for the current and past periods. Current tax is measured at the amounts of tax expected to pay or recover using the tax rates and laws that have been enacted or substantively enacted at the reporting date.

Deferred tax is recognised in respect of all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable surpluses. Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

Operating Leases

Lease payments are recognised as an expense over the lease term on a straight-line basis. The aggregate benefit of lease incentives is recognised as a reduction to expense over the lease term, on a straight-line basis.

Tangible Assets

Tangible assets are initially recorded at cost, and subsequently stated at cost less any accumulated depreciation and impairment losses.

Notes to the Financial Statements continued

2 Accounting Policies continued

Depreciation

Depreciation is calculated so as to write off the cost or valuation of an asset, less its residual value, over the useful economic life of that asset as follows:

Leasehold improvements	–	Over the remaining life of the lease
Office equipment	–	5 years straight line
Computer equipment	–	3 to 5 years straight line

Investments

Government and corporate bonds with a fixed rate of return are treated as basic financial instruments and amortised using the effective interest rate method.

Equity investments are treated as other financial instruments.

Corporate bonds with a variable return not linked to a single observable rate and asset backed bonds are treated as other financial instruments.

Impairment of Fixed Assets

A review for indicators of impairment is carried out at each reporting date, with the recoverable amount being estimated where such indicators exist. Where the carrying value exceeds the recoverable amount, the asset is impaired accordingly. Prior impairments are also reviewed for possible reversal at each reporting date.

Provisions

Provisions are recognised when the entity has an obligation at the reporting date as a result of a past event, it is probable that the entity will be required to transfer economic benefits in settlement and the amount of the obligation can be estimated reliably. Provisions are recognised as a liability in the statement of financial position and the amount of the provision as an expense.

Provisions are initially measured at the best estimate of the amount required to settle the obligation at the reporting date and subsequently reviewed at each reporting date and adjusted to reflect the current best estimate of the amount that would be required to settle the obligation. Any adjustments to the amounts previously recognised are recognised in income or expenditure unless the provision was originally recognised as part of the cost of an asset.

Notes to the Financial Statements continued

2 Accounting Policies continued

Provisions continued

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value using a pre-tax discount rate. The unwinding of the discount is recognised as a finance cost in income or expenditure in the period it arises.

A specific provision is included for annual leave accrued by employees as a result of services rendered in the current period, and which employees are entitled to carry forward and use within the next 12 months. The provision is measured at the salary cost payable for the period of absence.

Financial Instruments

A financial asset or a financial liability is recognised only when the entity becomes a party to the contractual provisions of the instrument.

Basic financial instruments are initially recognised at the transaction price, unless the arrangement constitutes a financing transaction, where it is recognised at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Debt instruments are subsequently measured at amortised cost.

Other financial instruments, including derivatives, are initially recognised at fair value, unless payment for an asset is deferred beyond normal business terms or financed at a rate of interest that is not a market rate, in which case the asset is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Other financial instruments are subsequently measured at fair value, with any changes recognised in income or expenditure.

Financial assets that are measured at cost or amortised cost are reviewed for objective evidence of impairment at the end of each reporting date. If there is objective evidence of impairment, an impairment loss is recognised in income or expenditure immediately.

For all equity instruments regardless of significance, and other financial assets that are individually significant, these are assessed individually for impairment. Other financial assets are either assessed individually or grouped on the basis of similar credit risk characteristics.

Any reversals of impairment are recognised in income or expenditure immediately, to the extent that the reversal does not result in a carrying amount of the financial asset that exceeds what the carrying amount would have been had the impairment not previously been recognised.

Notes to the Financial Statements continued

2 Accounting Policies continued

Cash and Cash Equivalents

Cash and cash equivalents comprise cash and demand deposits with banks together with short term highly liquid investments that are readily convertible to known amounts of cash and insignificant risk of change in value.

3 Income

Income arises from interest receivable on customer loans and interest and dividends earned on investments as analysed in the Statement of Income and Retained Earnings.

The whole of the income is attributable to the principal activity of the Company wholly undertaken in the United Kingdom.

4 Other Operating Income

	2019 **£**	2018 £
Loan administration fees received and sundry income	**5,692**	3,666

5 Operating Surplus

Operating surplus is stated after charging / (crediting):

	2019 **£**	2018 £
Depreciation of tangible assets	**17,132**	18,651
Amortisation of investments	**69,882**	61,467
Release of bad debt provision (car loans)	**(525)**	(785)
Operating lease costs - land and buildings	**6,242**	7,250
Operating lease costs - other equipment	**3,861**	1,196

6 Auditor's Remuneration

	2019 **£**	2018 £
Fees payable for the audit of the financial statements	**18,000**	17,640
Fees payable to the Company's auditor and its associates for other services:		
Other non-audit services	**3,120**	3,700

Notes to the Financial Statements continued

7 Staff Costs

The average number of persons employed by the Company during the year on a full time equivalent basis, excluding the Directors, amounted to:

	2019 No.	2018 No.
Administrative staff	**2**	2
Management staff	**1**	1
	3	3

The aggregate payroll costs incurred during the year, relating to the above, were:

	2019 £	2018 £
Wages and salaries	**80,935**	77,889
Social security costs	**6,654**	6,788
	87,589	84,677

8 Directors' Remuneration

The Directors' aggregate remuneration in respect of qualifying services was:

	2019 £	2018 £
Remuneration	**102,657**	99,152
Social security costs	**8,197**	8,099
Expenses	**7,625**	5,790
	118,479	113,041

The above aggregate remuneration includes the Company's one executive Director (2018: 1) and eight non-executive Directors (2018: 8). The non-executive Directors are not involved in the daily management or operations of the Company.

Notes to the Financial Statements continued

9 Tax on Surplus/(Deficit) on Ordinary Activities

Major components of tax expense

	2019 £	2018 £
Current tax:		
UK current tax expense	**4,899**	(1,622)
Adjustments in respect of prior periods	**1,622**	519
Total current tax	**6,521**	(1,103)
Deferred tax:		
Origination and reversal of timing differences	**253,016**	(142,765)
Tax expense/(income) on surplus/(deficit) on ordinary activities	**259,537**	(143,868)

Reconciliation of tax expense/(income)

The tax assessed on the surplus on ordinary activities for the year is the same as (2018: same as) the standard rate of corporation tax in the UK of 19% (2018: 19%).

	2019 £	2018 £
Surplus/(Deficit) on ordinary activities before taxation	**1,559,263**	(572,535)
Surplus/(Deficit) on ordinary activities by rate of tax	**296,260**	(108,782)
Items not allowable for tax purposes	**1,642**	2,758
Exempt dividend income	**(49,271)**	(49,753)
Non-chargeable investment gains	**-**	(29,048)
Unrealised non-chargeable investment loss/(gains)	**9,284**	40,438
Adjustments to tax charge in respect of previous periods	**1,622**	519
Marginal relief/effect of reduced rates of tax	**-**	-
Tax expense/(income) on surplus/(deficit) on ordinary activities	**259,537**	(143,868)

Notes to the Financial Statements continued

10 Dividends

Dividends paid during the year (excluding those for which a liability existed at the end of the prior year):

	2019 £	2018 £
Ordinary A shares at 21.75p (2018: 21.25p)	**893**	873
Ordinary B shares at £8.70 (2018: £8.50)	**148**	145
	1,041	1,018

Dividends proposed after the year end and not recognised as a liability:

	2019 £	2018 £
Ordinary A shares at 22.10p (2018: 21.75p)	**908**	893
Ordinary B shares at £8.84 (2018: £8.70)	**150**	148
	1,058	1,041

11 Tangible Assets

	Leasehold Improvements £	Office Equipment £	Computer Equipment £	Total £
Cost				
At 1 January 2019	27,857	13,799	91,956	133,612
Additions	–	–	7,158	7,158
Disposals	–	(3,697)	(10,263)	(13,960)
At 31 December 2019	**27,857**	**10,102**	**88,851**	**126,810**
Depreciation				
At 1 January 2019	27,857	12,881	60,816	101,554
Charge for the year	–	307	16,825	17,132
Disposals	–	(3,697)	(10,263)	(13,960)
At 31 December 2019	**27,857**	**9,491**	**67,378**	**104,726**
Net book value				
At 31 December 2019	**–**	**611**	**21,473**	**22,084**
At 31 December 2018	–	918	31,140	32,058

Notes to the Financial Statements continued

12 Investments

	Debt and fixed income securities £	Equity investments £	Total £
Cost			
At 1 January 2019	8,239,436	7,260,746	15,500,182
Additions	1,079,883	883,641	1,963,524
Disposals	(955,220)	(1,058,386)	(2,013,606)
Fair value adjustment	119,233	1,282,795	1,402,028
At 31 December 2019	**8,483,332**	**8,368,796**	**16,852,128**
Amortisation			
At 1 January 2019	281,568	–	281,568
Charge for year	69,882	–	69,882
Disposals	(38,862)	–	(38,862)
At 31 December 2019	**312,588**	**–**	**312,588**
Net book value			
At 31 December 2019	**8,170,744**	**8,368,796**	**16,539,540**
At 31 December 2018	7,957,868	7,260,746	15,218,614

The investments held at amortised cost have a market value of £5,900,990 (2018: £5,720,780) (including interest accrued of £34,686 (2018: £32,953)).

The investments held at fair value have a historical cost of £8,953,456 (2018: £9,142,473).

If the above investments were realised at the date of the statement of financial position, a corporation tax liability would arise on gains/losses made in the region of £255,000 (2018: £nil) assuming a tax rate of 19% (2018: 19%).

Notes to the Financial Statements continued

13 Debtors

Loans and advances to customers

	2019 **£**	2018 £
Loans and advances to customers	**7,888,087**	6,315,264

	At 31 Dec 2018 £	Advanced £	Repaid £	Released/ (provided) £	**At 31 Dec 2019 £**
Property loans - secured	5,789,736	2,707,296	(1,675,591)	–	**6,821,441**
Property loans - unsecured	477,458	1,142,725	(581,112)	–	**1,039,071**
Property loans - total	6,267,194	3,850,021	(2,256,703)	–	**7,860,512**
Car loans - unsecured	49,302	8,500	(29,520)	–	**28,282**
	6,316,496	3,858,521	(2,286,223)	–	**7,888,794**
Provision for bad debts	(1,232)	–	–	525	**(707)**
	6,315,264	3,858,521	(2,286,223)	525	**7,888,087**

Analysis of maturity of loans and advances to customers

The maturity of advances to customers from the balance sheet date is as follows:

	2019 **£**	2018 £
Due within 3 months	**488,356**	8,880
In more than 3 months but not more than 1 year	**588,968**	1,190,672
In more than 1 year but not more than 5 years	**1,827,551**	1,796,008
In more than 5 years	**4,983,919**	3,320,936
Less provision for bad debts	**(707)**	(1,232)
	7,888,087	6,315,264

Term loans above £60,000 are secured by way of a declaration from the trustees as well as a legal charge (unless agreed otherwise by the Board) and loans up to £60,000 by way of a declaration from the trustees of the church. For bridging loans for manse purchases a solicitor's undertaking is obtained to repay the proceeds of the house sale to the Company up to the amount of the loan outstanding.

Notes to the Financial Statements continued

13 Debtors continued

Prepayments, accrued income and other assets

	2019 £	2018 £
Prepayments and accrued income	**110,945**	93,275

14 Investments held for short term purposes

	2019 £	2018 £
Funds held short-term by Sarasin & Partners LLP for investment	**862,056**	892,171

15 Liabilities

Customer Accounts

	2019 £	2018 £
Customer Accounts	**23,169,408**	21,897,604

Amounts standing to the credit of depositors:

	2019 £	2018 £
At 1 January 2019	**21,897,604**	21,344,785
Received	**3,416,330**	2,844,737
Withdrawn	**(2,144,526)**	(2,291,918)
At 31 December 2019	**23,169,408**	21,897,604

Analysis of maturity of customer accounts

Deposits are repayable from the date of the balance sheet in the ordinary course of business as follows:

	2019 £	2018 £
In one year or less or repayable on demand	**19,730,703**	18,535,061
In more than one year but not more than two years	**869,061**	803,463
In more than two years	**2,569,644**	2,559,080
	23,169,408	21,897,604

Notes to the Financial Statements continued

15 Liabilities continued

Other Liabilities

	2019 £	2018 £
Corporation tax	**4,899**	–
Other taxation and social security	**6,347**	6,479
Accruals and deferred income	**63,788**	58,015
	75,034	64,494

16 Deferred Tax

The deferred tax included in the statement of financial position is as follows:

	2019 £	2018 £
Included in provisions (note 17)	**257,972**	4,956

The deferred tax account consists of the tax effect of timing differences in respect of:

	2019 £	2018 £
Excess of taxation allowances over depreciation of fixed assets	**3,500**	4,956
Provision for fair value adjustments to investments	**254,472**	–
	257,972	4,956

17 Provision

	Deferred tax (note 16) £
At 1 January 2019	4,956
Charge against provision	253,016
At 31 December 2019	257,972

Notes to the Financial Statements continued

18 Financial Instruments

The carrying amount for each category of financial instrument is as follows:

Financial assets:

	2019 £	2018 £
Financial assets measured at fair value through income or expenditure		
– Investments	**11,137,822**	9,910,539
Financial assets that are debt instruments measured at amortised cost		
– Investments	**5,401,718**	5,308,075
– Cash and balances at central banks	**10,947,148**	10,984,433
– Cash held in investment portfolio	**862,056**	892,171
– Loans and advances to customers:		
– Property loans	**7,860,512**	6,267,194
– Car loans	**27,575**	48,070
	25,099,009	23,499,943

Note 12 includes details of other financial assets held at amortised cost.

Financial liabilities:

	2019 £	2018 £
Financial liabilities measured at amortised cost		
– Customer deposit accounts	**(23,169,408)**	(21,897,604)

For all financial instruments measured at fair value, the basis for determining the fair value is the quoted market price in an active market.

The following risks arise from the financial instruments held by the Company:

Credit Risk

This is the risk of a reduction in earnings and/or value, as a result of the failure of a party with whom the Company has contracted to meet its obligations as they fall due i.e. loan repayments, investments or bank deposits.

Notes to the Financial Statements continued

18 Financial Instruments continued

Credit Risk continued

For each of the Company's holdings in financial instruments, i.e. loans, investments and bank deposits, the Company's maximum exposure to credit risk is the carrying value as shown in the statement of financial position, plus the committed undrawn loans of £2.3 million (2018: £2.8 million). This maximum exposure is before taking into account any underlying security and the Company has no exposure to derivatives or similar instruments.

Customer default risk

In total, £6.8 million (2018: £5.8 million) of the Company's £7.9 million (2018: £6.3 million) property loans were secured by legal charge (or equivalent) on church buildings or manses. In addition, for unsecured bridging loans (2019: £0.4 million, 2018: none), the Company has obtained undertakings from the appropriate solicitors to repay the proceeds from sale of properties currently being marketed for sale. The remaining loans of £0.7 million (2018: £0.5 million) are generally smaller unsecured loans.

As at 31 December 2019 the Company had one secured loan (2018: 1 loan) and one unsecured loan (2018: none) to the same borrower which were neither past due nor impaired but for which capital repayment extensions had been agreed. The capital balance of these loans totalled £514,097 (2018: £450,702). Following completion of the sale of property by the borrower, £311,977 of these loans was repaid on 13 January 2020, with the balance to be repaid from the sale of further property, with similar value, during the first quarter of 2020.

The Company's loans past due but not impaired are summarised below:

	As at 31 December 2019		As at 31 December 2018	
	Balance overdue £	**Balance of loans £**	Balance overdue £	Balance of loans £
Up to 1 month overdue	**69,508**	**1,232,081**	7,618	452,702
Over 1 month overdue	**–**	**–**	–	–

The Company's property term loans are repayable in semi-annual instalments on 30 June and 31 December each year. The above figures represent repayments that were due on 31 December but were received in the first half of January, i.e. these relate to short term timing differences only.

Loans and advances to customers are reviewed regularly to determine whether there is any objective evidence of impairment. The Company has no concerns about the credit quality of its loans and no specific impairment provisions have been included.

Notes to the Financial Statements continued

18 Financial Instruments continued

Credit Risk continued

The Company has never suffered any bad debts on property loans in its history and therefore no collective impairment provision has been included in respect of these. However, a collective provision of £707 (2018: £1,232) has been included in respect of the £28,282 (2018: £49,302) balance of unsecured car loans.

The Company has not taken possession of any collateral it holds as security for loans during 2019 (2018: none).

Treasury credit risk

The credit risk of treasury assets is considered to be relatively low. No assets are actively traded. Certain liquid assets are held as part of the Company's liquidity buffer.

The Company does not engage in wholesale deposit lending other than with UK interbank counterparties with strong long-term credit ratings (minimum Moody's rating of Baa3 for UK banks / building societies and A3 for overseas banks / building societies), or allow placements exceeding the Company's large exposures capital base (subject to the PRA pre-notification rules). The amount of deposits placed with any one bank is limited to 25% of the Company's regulatory capital. The maximum term of any deposit as at 31 December 2019 was 6 months (2018: 6 months).

In addition, the Company invests in UK government gilts, equities and major company corporate bonds via its Investment Manager, Sarasin & Partners LLP. The Investment Manager operates within parameters and limits agreed by the Board. The corporate bonds are all sterling based and the bond portfolio is considered by the Investment Manager to be low risk and well diversified.

As at 31 December 2019 and at 31 December 2018 none of the treasury assets were past due or impaired.

Liquidity Risk

Liquidity risk is the risk that the Company is unable to meet its current and future obligations as they fall due, or is only able to do so at excessive cost.

The Company's policy is to ensure that it maintains a minimum liquidity position, consisting of bank deposits, UK gilts and other readily-realisable investments, sufficient to meet a demand for payment of all retail deposits repayable within 8 days, even under stressed scenarios.

The maturity of the Company's financial liabilities is shown overleaf.

Notes to the Financial Statements continued

18 Financial Instruments continued

Liquidity Risk continued

	Total £	Less than 1 month (*) £	1 - 3 months £	3 months to 1 year £	1 to 5 years £	More than 5 years £
At 31 December 2019						
Customer deposits	**23,169,408**	13,398,946	8,966,999	–	803,463	–
Other liabilities	**75,034**	70,135	–	4,899	–	–
	23,244,442	13,469,081	8,966,999	4,899	803,463	–
At 31 December 2018						
Customer deposits	**21,897,604**	13,467,179	7,626,962	–	803,463	–
Other liabilities	**64,494**	64,494	–	–	–	–
	21,962,098	13,531,673	7,626,962	–	803,463	–

(*) Child Trust Funds have been included in the 'Less than 1 month' column as they can be transferred to other providers, at the request of the registered contact, within this period. However, the child is not entitled to the funds until they become 18 years of age and this will not occur until September 2020 at the earliest.

Market Risk

Market risk is the risk that the value of, or income arising from, the Company's assets and liabilities change as a result of changes in market prices or interest rates.

The Company has a Board-approved Treasury Policy Statement which includes limits for all aspects of applicable market risks.

Interest Rate Risk

The Company is exposed to the risk of loss from fluctuations in the future cash flows because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps between assets and liabilities based upon the next interest rate re-pricing dates as against the contractual maturity dates of the instruments.

The customer deposits placed with the Company are all variable rate and rates can be adjusted as necessary dependent on market conditions, subject to a 3 month notice period where not in the depositors' favour.

The Company's property loans are also all variable rate, although the Company's policy has been to maintain stability in loan rates wherever possible.

Notes to the Financial Statements continued

18 Financial Instruments continued

Market Risk continued

The Company's deposits placed with other financial institutions are also variable rate with no fixed rate or fixed term deposits held as at 31 December 2019 (2018: none) and no deposits linked to other benchmarks.

The Company holds no options or other derivative instruments and has no multi-currency interest rate exposures.

Therefore, the Company's interest rate risk arises primarily as a result of its investment portfolio. The bond and gilt investments are fixed rate, fixed term investments and so changes in market interest rates will have the following effects:

- In the event of rising market interest rates, no additional income will be generated from these investments to fund the possible interest rate rises for the Company's depositors.
- The market value of the fixed rate investments will decrease in the event of market rate rises (which have not already been priced into the current market value).

The Senior Officers monitor the interest rate risk on a monthly basis and this is reported to the Audit and Risk Committee. The impact of a potential 2% parallel shift in the yield curve against the Bank's interest bearing assets is computed back to a net present value.

The reported interest rate sensitivity on the year-end statement of financial position (measured as the effect of a 2% parallel shift in Sterling interest rates) was as follows:

	2019 £'000	2018 £'000
Net present Value Sensitivity to:		
Positive Shift (+2%)	**(665)**	(557)
Negative Shift (-2%)	**822**	675

The interest rate sensitivities above are illustrative only and are based on simplified scenarios. The figures represent the effect on net interest income and fixed interest security values arising from a parallel fall or rise in the yield curve and do not take into account the effect of any further actions taken to mitigate the effect.

Notes to the Financial Statements continued

18 Financial Instruments continued

Market Risk continued

A 2% rise in market rates would have also have the following effect on the Company's ongoing operating surplus, assuming that it was passed on in full to both borrowers and depositors and was reflected in rates available on the Company's bank deposits:

	2019 £'000	2018 £'000
Reduction in surplus	**87**	93

In reality, the Company would carefully and quickly manage the extent to which the rate increase was passed on to depositors and borrowers to minimise this risk further. In addition, the Company can make transfers to/from its investment portfolio which gives a further tool to manage its net surplus.

Foreign exchange risk

The Company has no direct exposure to foreign exchange rate movements as all of its assets and liabilities are Sterling denominated.

Market price risk

The Company has a significant investment portfolio of long-term investments which are held primarily in order to:

- Provide income to cover the Company's fixed costs and enable it to fulfil its primary purpose, i.e. providing loans for building schemes to Christian churches and associated organisations at the lowest practicable rate of interest throughout the duration of each loan;
- Provide readily realisable assets (primarily the government gilts part of the portfolio) to enable the Company to meet its liquidity requirements;
- Generate long term capital growth to further strengthen the Company's capital base.

The investment portfolio is managed by Sarasin & Partners LLP within an investment mandate including benchmarks, limits and other parameters agreed by the Board within the Company's risk appetite.

The main market risk relates to the volatility of the investments, particularly the equities and equity funds in response to market or investment-specific events. A 25% decrease in the market value of equity investments would result in a negative movement in the unrealised gain/loss on these investments totalling £2.1 million (2018: £1.8 million). The Company's capital would decrease by the same amount but would remain well above the regulatory minimum.

Notes to the Financial Statements continued

18 Financial Instruments continued

Capital Risk

Capital risk is defined as the risk that the Company has insufficient capital to provide a resource large enough to absorb losses or that the capital structure is insufficient to meet regulatory requirements.

The Company is obliged to maintain regulatory capital above the €5 million base capital requirement applicable to banks, as this is higher than the amount calculated under the Pillar 1 plus Pillar 2A requirements.

In addition, the Company's internal policy is to maintain an internally-calculated buffer to cover potential stresses.

The Company's actual regulatory capital, all of the highest quality 'Common Equity Tier 1', remained above that required by the regulatory limit and internal policy during 2019 (and 2018).

19 Called Up Share Capital

Issued, called up and fully paid:

	2019		2018	
	No	**£**	No	£
Ordinary A shares of £0.25 each	**4,108**	**1,027**	4,108	1,027
Ordinary B Shares of £10 each	**17**	**170**	17	170
	4,125	**1,197**	4,125	1,197

20 Operating Leases

The total future minimum lease payments under non-cancellable operating leases are as follows:

	2019 £	2018 £
Not later than 1 year	**3,182**	1,714
Later than 1 year and not later than 5 years	**10,139**	2,440
Later than 5 years	**277**	–
	13,598	4,154

Notes to the Financial Statements continued

21 Related Party Transactions

Alan Pimlott (Director) is a member of the Board of the Trustees for Methodist Church Purposes. Anne Goodman (Director) is the Chief Executive of the Trustees for Methodist Church Purposes. The Trustees for Methodist Church Purposes hold, as full trustee of the MCA Charitable Trust, 30% (2018: 30%) of the share capital of the Company. It holds these shares for the charitable purposes of the Methodist Church generally.

The Directors are considered to be the key management personnel of the Company and their remuneration has been disclosed in note 8.

22 Winding up

The Articles of Association of the Company require that in the event of the Company being wound up, any surplus of funds remaining after the settling of all liabilities and repayment of the share capital shall be distributed in accordance with the directions of the Methodist Conference.

23 Controlling Party

The Company was under the control of the Board of Directors throughout the current year and the previous year.

Officers and Professional Advisers

The Board of Directors
As at 31 December 2019
G Alan Pimlott ACIB (Chair)
Peter A Mills FCA (Deputy Chair)
Revd James A Booth LLB
D Jeremy M Burchill LLB BL
Rt Revd Paul J Ferguson MA FRCO
Peter J Forward FCA
Anne F Goodman BSc (Econ)
A Christopher Jarratt BSc FCA
Andrew C Slim BA FCIB

Chief Executive
A Christopher Jarratt BSc FCA

Company Accountant and Company Secretary
Steven R Jones BA FCCA

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Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority
Firm Reference No: 204508

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Principal Banker
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Solicitor
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Investment Manager
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Internal Auditor
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Funding for Churches

Get in touch if you have any questions

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