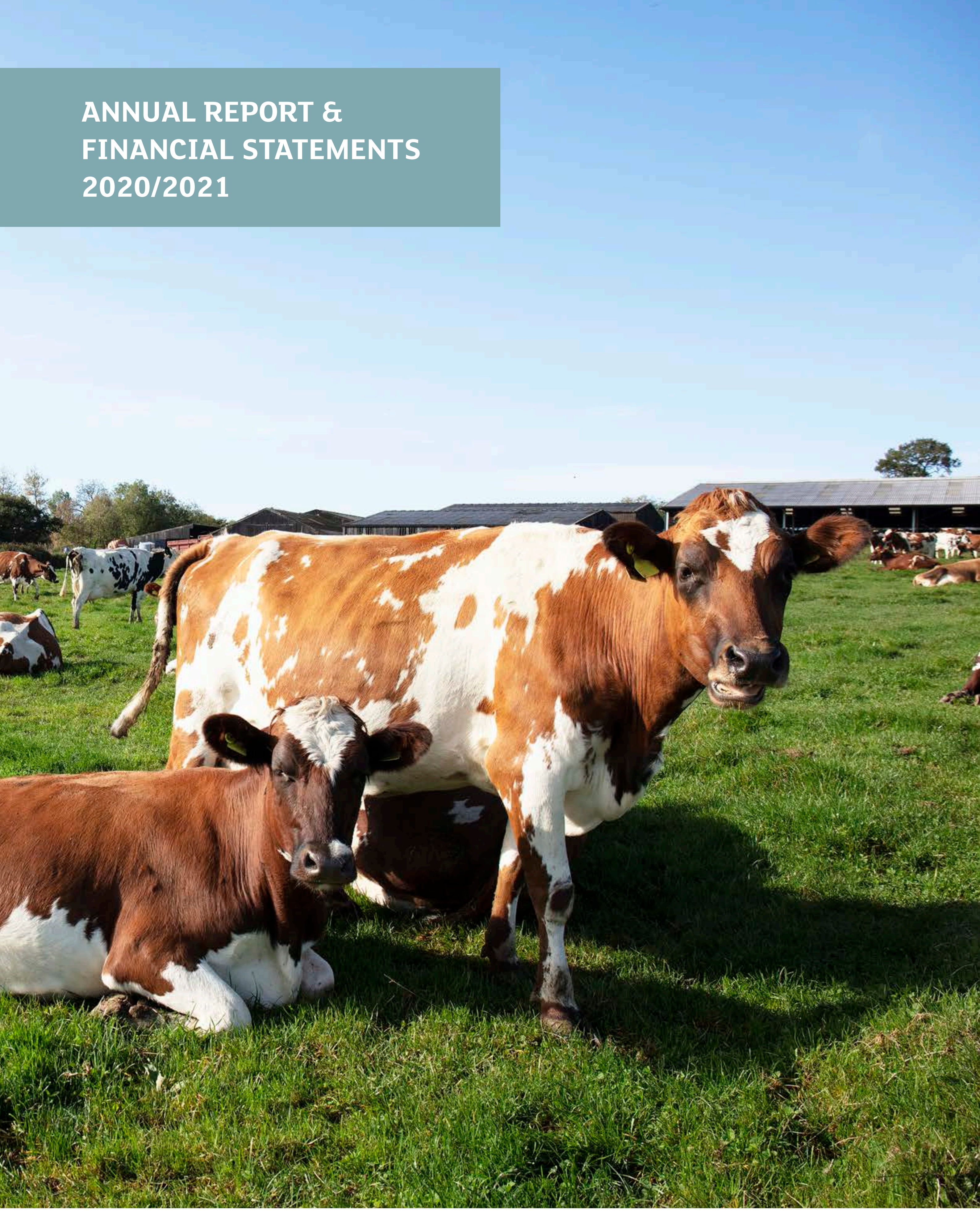
ANNUAL REPORT & FINANCIAL STATEMENTS 2020/2021



Cornish Mutual

INDEX

Our Enduring Purpose

Founded by South West Farmers in 1903, Cornish Mutual focuses on protecting the farming communities of our region and providing Members with great experiences and customer outcomes that are flexible and personal, all underpinned by technical excellence.

Our strategic review in 2020 determined that we would extend our purpose beyond insurance to a wider protection remit. This is a developing theme within general insurance and is particularly relevant for a Member-owned insurer focusing on a niche which is going through such a significant period of change.

The Executive is pursuing a broad range of initiatives which meet strategic objectives to use automation to unlock better jobs for an empowered workforce, to modernise and improve the insurance offering for our Members and move towards a more proactive set of loss prevention services for our farming Members.

Cornish Mutual Members experience service from our directly-employed, expert people living in the communities we serve. We avoid the use of intermediaries or agents for core insurance services. Our people are selected for their approach to Members and trained to provide all of our key functions including our locally-based claims service. This approach means Cornish Mutual employees are highly motivated experts in their field, acting with our Members' interests firmly at the heart of everything they do.

Our commitment and quality of performance underpin our 'Chartered Insurer' status, which we have now held continuously for 9 years. Crucially, we consciously avoid creating the wrong incentives so, for example, nobody receives sales commission and Directors do not receive a bonus.

We are committed to developing our services based on how our Members wish to deal with us. With this in mind and as technology continues to increase its influence within insurance and farming, we will focus on how new services and communication channels can support our personal face-to-face offering, without replacing it.

"The entire team at Cornish Mutual is focused on finding practical solutions to the challenges our community faces."

It gives me great pleasure to present our 2021 annual report.

I'm sure that two years ago no one could have foreseen the disruption and changes which would be brought about by the Covid-19 pandemic. The ways we all live, work and play are now different. Whilst the worst may be behind us, we are all having to consider how we manage the 'new normal'. As has been the case for many other businesses, Cornish Mutual has been affected. As an organisation, we have taken significant steps to protect our staff while still aiming to provide a safe and consistent level of service to our Members. As a new world evolves, we look forward to working with our Members proactively and flexibly through our insurance and loss prevention offering, to meet our obligations.

A significant side effect of Covid-19 for Cornish Mutual has been a fall in the value of claims during the year. In simple terms, this is due to fewer activities that might result in claims taking place during lockdowns. A fall in claims volumes, and the changes to reinsurance which have significantly reduced the level of profit being ceded to reinsurers, have led to an excellent financial result for the year which will strengthen Company reserves. This will enable Cornish Mutual to maintain a strong position to support our Members as we face new opportunities and challenges. In the future, we anticipate more frequent financial losses under our revised reinsurance arrangements, and this year's result will provide a welcome buffer to these.

Cornish Mutual was originally set up by a group of tenant farmers to provide cost effective insurances. Servicing the farming community's insurance needs through the four South West counties remains a key part of the Cornish Mutual remit. The agricultural industry has major challenges ahead as we go further into the post Brexit era. Currently, a number of these challenges are masked by improved prices for crops and livestock. However, rising input costs, labour shortages and mixed government policy messages are but a few of the issues likely to be contended within the short term which have potential to make a big difference.

In line with our purpose, we have implemented a broad range of initiatives aimed at empowering our people and differentiating our proposition to further support and develop our focus on our agricultural niche. Our size, mutual status and regional nature mean that we can react quickly to our Members' changing needs. The entire team at Cornish Mutual is focused on finding practical solutions to the challenges our community faces.

A good example of how Cornish Mutual can now offer wider assistance to our Members is with our health and safety service which has been launched in the past year. As we are all too aware, the health and safety record within the agricultural industry needs improvement. By helping our Members with a cost-effective offering to review their systems, and minimise the burden of paperwork, we can help to minimise risk.

Climate change is something which potentially has a big effect on the insurance industry. Within the company during the year, we have strived to further integrate our policies around this area while taking a proportionate view of the risk. With most of our Members being land custodians and therefore potentially impacted, it is something we need to manage effectively.

To sum up after what has proved to be yet another year of great change and uncertainty, I would like to thank our staff and Members for their continued support. This business as a mutual only works for the best interests of its Members and is supported by a committed staff team. I hope that despite all the challenges, we are able to continue to work together for the greater good.

Jeremy Oatey

14 December 2021

"We focus on new areas where we can add more value to the Membership, recognising the challenges that face the farming community."

This year continued where the last one left off with the ongoing impact from Covid-19. We saw new lockdowns and the cancellation of many agricultural shows for a second year, but also a continued reduced level of motor claims for much of the year. Despite the challenges, we were nonetheless able to make progress on our strategic agenda for the business.

Our strategy sets an evolving course for the business rather than a revolutionary one. That said, we focus on new areas where we can add more value to the Membership, recognising the challenges that face the farming community.

Growth will be a consequence of successfully executing these changes. The Executive has a broad view of organisational growth in terms of Members' Funds, relative capital strength, scope of offering, internal capability, culture and perhaps most importantly, brand awareness and reputation given that these underpin our competitive advantage.

The financial gains from achieving just insurance premium growth are modest. We aim to provide insurance to Members at as low a cost as we can, while remaining sustainable. Our intentionally low margin model, which benefits Members, results in long payback periods for any investment reliant on premium growth. Strategies for new services to run alongside our established insurance products need to be considered for their potential to meet our wider set of objectives, benefitting the Membership as well as being profitable and sustainable.

The development of the business is purpose-driven, and developments will be broad-based, iterative and measured.

During 2021 we began piloting and distributing some new offerings. We are developing our own capabilities and working with third parties to provide new services in line with the challenges Members tell us they face.

We have launched a health and safety service which is designed to provide cost-effective, practical and proactive support for Members in reducing risks to themselves, their families, employees and visitors.

We have begun pilots of on-farm sensors which have the potential to reduce risk and also reduce uninsured costs for improved productivity. One such trial is using hay sensors to measure over-fermentation, as a risk factor in both spontaneous combustion and reduced nutritional value.

We will be guided in our priorities by the views of the Membership, and we have completed a risk survey during 2021 which forms part of this process.

Alongside all of our activities, we continue to embed a response to climate change. As well as the Company's own carbon footprint, we are modelling the future financial impacts of climate change on Cornish Mutual and thinking about how we respond to the risks and opportunities for the Company and its Members.

The Directors are confident that we can develop the company and still maintain an efficient cost model. We are looking to avoid large investment inputs which reduce capital and have long, uncertain returns in a rapidly changing market for farmers and insurers.

Thank you to all our stakeholders for your loyal support of this important South West company. Our Members, staff, reinsurers and suppliers all play their part in making Cornish Mutual the unique proposition that it is.

P Beaumont
Managing Director

Strategic Report

The Directors present their Strategic Report on the Company for the year ended 30 September 2021.

Section 172

Section 172 of the Companies Act 2006 describes how the Directors of the business must work to promote the success of the business for the benefit of the whole Membership. This includes considering in full the likely consequences of any decision over the long term, taking actions in the best interests of our employees, fostering positive relationships with suppliers, developing positive relationships with the wider community and improving the impact of the business on the environment.

Our enduring purpose is that we work to protect the farming community. Our Membership is at the heart of everything we do. This is explored in both the Strategic Report, and in Section 1 of our Report on Corporate Governance on page 26. Our Strategic Report sets out details of our strategy on page 5. Our objectives are all focused on ensuring we are in a position to provide the best possible service to our Members.

Sections 2 to 5 (inclusive of our Report on Corporate Governance on pages 26 to 28) set out the ways in which our governance structure enables service excellence, by ensuring that our Board and its individual Directors have the qualities, training and understanding to deliver on behalf of the Members.

Section 6 of our Report on Corporate Governance on page 28 provides further explanation of how we engage with each of our stakeholders. It is important that the Board understands the needs of each stakeholder group and that these needs are always considered during discussions and in decision making. We are constantly seeking to put the Member at the centre of all our actions, and this is recognised by the Board when making decisions that will impact our Membership in the longer term.

Strategy and Objectives

Our strategy drives how we deliver our purpose. It is our plan for how we navigate the challenges we face and make the most of the opportunities we identify for the benefit of the Membership.

Cornish Mutual is a relationship brand for Members who trust us to offer them long term value and to deliver on our promises. Our value as a business lies in providing a level of fairness and service that exceeds that which can be obtained anywhere else. How we organise ourselves, how we act, the services we provide, and the outcomes Members experience all contribute to a distinctive and unique offering.

Excellent service is not a nice-to-have; it is the source of Cornish Mutual's competitive advantage and drives high retention and recommendation. Recommendations in turn support the company as the main source of new business. High satisfaction brings exceptional Member loyalty and leading Net Promoter Scores (which measures the willingness of our Members to recommend our services to others).

Our overall cost structure is competitive; despite our relatively modest size, we have an expense ratio which is lower than the industry average according to ABI data. High Member retention enables us to avoid the need to generate extra margin to fund the acquisition of replacement business.

The company has a strong and sustainable financial position. Holding sufficient capital allows us to take proportionate investment risk, generating investment income which supports and diversifies the insurance performance.

A rule of thumb for our financial model is that we have broadly matching levels of Gross Written Premium (GWP) and Members' Funds, which is the pool of money remaining once all our liabilities have been settled. To maintain a sustainable financial position, this dynamic needs to be maintained. A consequence of this is that we need to match growth in premium with our profit margin. Furthermore, to maintain a sustainable and competitive position, we need to ensure that our business continues to grow in real terms. The combination of these factors means we target growth in premium and achievement of a profit margin that over time is above inflation. This delivers a stable, well-funded business able to sustain a strong position in our target markets for generations to come.

Our employees are empowered to work together closely as a team, delivering a seamless, joined up experience for Members throughout their relationship with us. Technology offers opportunities to enhance and support these relationships further, enabling timely communication with Members in relation to insurance and a developing suite of other services.

While developing our digital capability is important, maintaining person-to-person relationships is crucial and remains core to our strategy. Our high retention and loyalty is the bedrock of our success, and this is rooted in the trust Members have in us.

Insurance, and risk management more widely, is vital to our Membership and we understand our responsibility as a trusted partner to Members. Accordingly, we need to consider the future changes to the farming community as well as the significant trends impacting the insurance industry in our offerings.

Technology is increasingly the driver for business change across most sectors. For Cornish Mutual, how we interact with Members through technology is going to be different to what is seen elsewhere in the insurance and financial services industry. We recognise that the ability to speak to an easily accessible expert to establish the right cover, discuss claims and resolve any issues along the way is what makes Cornish Mutual a valuable business partner. Technology needs to enhance this successful formula, not replace it.

Climate Change represents a challenge that all businesses need to face, and affects the Company in several ways. An increasing severity of weather-related claims is an obvious source of financial impact. The types of loss that the Membership experiences is also likely to change. We are already seeing shifting ranges for pest species and diseases, and we could see demand for new types of cover in response.

The Company needs to tackle its own environmental impact, just as our Members are having to, both in response to regulation and developing consumer demands around this important issue.

In the round, the strategy has a wide range of challenges and opportunities which require a response. We are maintaining a significant focus on developing the Company to meet these demands and remain relevant to our Members. We will only achieve this if the solutions we offer are practical and cost effective, demonstrably supporting them through changing times.

What makes us different

Cornish Mutual's competitive advantage comes from our relationships with stakeholders, particularly Members and employees. With ongoing modernisation, this is a sustainable proposition. Many industry commentators are concluding that customers want service-driven relationships with purpose-driven brands and employees are looking to work for such organisations.

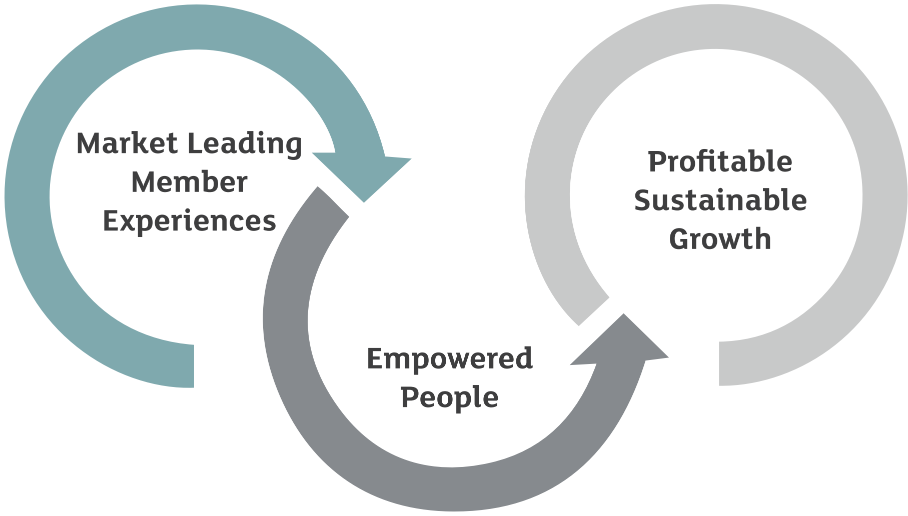
Changes to insurance, changes to farming and rising consumer expectations are guiding how we are strategically developing our offering. How climate change is impacting farming and how we best manage the risks and opportunities will be central to our strategy.

Our efforts will be spread between improving current services, advances in our insurance offering and the development of different but complementary services to extend and improve the overall proposition. The early indications are that our pilot service extension projects are proving to be very well received by Members.

Our strategy seeks to make the most of these opportunities and is reflected in three objectives.

Objectives

As part of our strategy refresh during 2020 we identified our three objectives for the Company:



1. Market Leading Member Experiences

The focus of this objective is to create an ever more compelling reason to join, stay and recommend Membership of Cornish Mutual.

We want Members to have access to the service they need, available in a way that suits them. We are enhancing our current personal approaches with new digital service options.

Our Members consistently recommend us, so we will maintain what Members value: we always do what we say we will do; offering consistent, stable pricing, and providing a fair and responsive claims service. During this Financial Year we took the decision to phase out direct debit interest charges to help further support our Membership.

We are also looking to add protection services and develop content which helps our Members navigate the significant changes that farming is going through.

2. Empowered People

A key part of delivering our service to Members is the quality of the people who work at Cornish Mutual. Being a Chartered Insurer requires maintaining a high level of professionalism and working to strong ethical and conduct standards.

A crucial feature of dealing with someone at Cornish Mutual is that they are knowledgeable and are able to get things done. Providing new and improved tools to support colleagues in this endeavour is a key part of this objective.

To support our continuous improvement and deliver great Member outcomes, we must work effectively together, ensuring a spirit of innovation can thrive and further enhance our service to Members. Our performance management focuses on behaviours, ensuring we actively work together, continuously improve and put the Membership at the heart of every decision we take.

3. Profitable Sustainable Growth

Our objective of growing the business means we can extend the benefits of Cornish Mutual to a wider Membership. We are clear, however, that our growth will continue to come from farmers and the farming community in the South West. To do this sustainably means combining growth with control over expenses and delivering sufficient profit to maintain an appropriate level of Members' Funds.

The variable nature of claims means insurance results are inherently uncertain. We plan to make a profit over a five-year period, recognising we are likely to make losses in some individual years.

Our insurance results are underpinned by our reinsurance strategy, which can significantly affect the balance between risk and return in our results. We have completed two years under new reinsurance arrangements which we forecast would benefit the insurance results over our five-year planning period, while still protecting our capital. This is discussed in more detail further on in this Strategic Report from page 13, as is the specific impact of the Covid-19 pandemic on the insurance result.

Our investments also contribute to our overall profit. We have seen two very large shocks to the financial system in relatively recent times, in the form of the financial crisis in 2008 and the market response to the Covid-19 pandemic last year. We seek to balance these sorts of investment risk with a reasonable level of return.

Financial sustainability also needs to be matched by environmental sustainability, both directly through our own operations and equally through the indirect impact of our investment activity.

Key Performance Indicators

We use a number of key indicators to understand the development and performance of the business. Financial key performance indicators include loss ratios (which compare premium to claims costs), growth in written premium and our amount of available capital.

Non-financial measures include our Net Promoter Score (which measures the willingness of our Members to recommend our services to others), our retention of Members at renewal, telephone call handling statistics and the number of complaints received. We also recognise the importance of employee engagement and measure this in a variety of ways, including an annual survey where we encourage honest feedback.

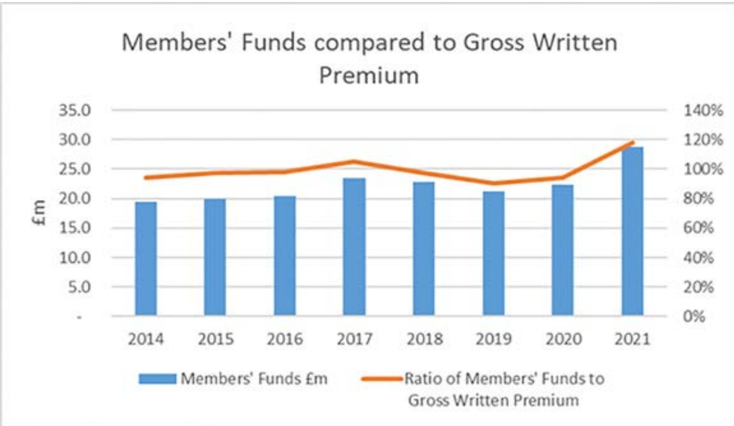
Financial Performance

Members' Funds need to be maintained at an appropriate level to meet the expected amount of current and future claims, including making allowances for exceptional years. Managing the level of these reserves over the long term is key to the financial success of Cornish Mutual.

As a rule of thumb, we look to maintain Members' Funds around the same numerical value as Gross Written Premium. We balance this need to hold and increase capital with our aim to deliver good general insurance cover at a competitive rate.

Members' Funds this year increased by £6m to £28.7m (2020: increase of £1.2m). This represents a significant increase compared to forecast and has arisen due to:

- lower claims volumes reducing our claims costs;
- a more cost-effective reinsurance programme which has reduced the level of profit we cede to reinsurers;
- higher levels of investment returns in Financial Year 2021, due to a rebound in investment performance following the initial impact of the Covid-19 pandemic in March and April 2020.



We are required by regulators to maintain a sufficient level of capital, and this is determined in accordance with Solvency II rules by reference to a set of standard calculations. These calculations determine how much capital we need to survive particular stress scenarios. Our Members' Funds need to exceed this level of capital at all times and on a forward-looking basis. Members' Funds for this purpose are calculated on a different basis to the balance sheet presented in these accounts. This information can be found in our Solvency and Financial Capital Requirement report on our website.

Financial Highlights

The table below includes our financial key performance indicators. The table shows the difference between the gross and net insurance performance, which allows us to see the impact of our reinsurance arrangements. The table reflects the financial results as reported in each financial year. Each year is subject to positive or adverse developments in claims from previous years. This means that in Financial Year 2021, net insurance profit reflects the impact of changes in claims values under quota share arrangements, stop loss arrangements and excess of loss arrangements.

Year	2015	2016	2017	2018	2019	2020	2021
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Gross Written Premium	**20,590**	**20,820**	**22,310**	**23,440**	**23,650**	**23,860**	**24,330**
Gross Earned Premium	**20,710**	**20,600**	**21,500**	**23,000**	**23,450**	**23,880**	**24,140**
Less: Gross Claims	-9,460	-10,870	-12,070	-13,830	-15,360	-18,340	-11,070
Gross Earned Loss Ratio	46%	53%	56%	60%	66%	77%	46%
	11,250	9,730	9,430	9,170	8,090	5,540	13,070
Add: Other Income	260	260	250	280	280	290	290
Less: Expenses	-5,570	-5,960	-6,430	-6,830	-6,980	-6,870	-6,940
Gross Earned Expense ratio	26.9%	28.9%	29.9%	29.7%	29.8%	28.8%	28.7%
Gross insurance profit/(loss)	**5,940**	**4,030**	**3,250**	**2,620**	**1,390**	**-1,040**	**6,420**
Effect of reinsurance	**-5,500**	**-4,260**	**-2,790**	**-3,210**	**-3,320**	**2,370**	**-2,370**
Net insurance (loss)/profit	**440**	**-230**	**460**	**-590**	**-1,930**	**1,330**	**4,050**
Add: Investment returns/losses	**350**	**1,820**	**1,890**	**580**	**590**	**-130**	**2,090**
Profit/(loss) before tax	790	1,590	2,350	-10	-1,340	1,200	6,140
Members' Funds £m	**20.0**	**20.4**	**23.4**	**22.9**	**21.3**	**22.4**	**28.7**
Ratio of Members' Funds to Gross Written Premium	97%	98%	105%	98%	90%	94%	118%

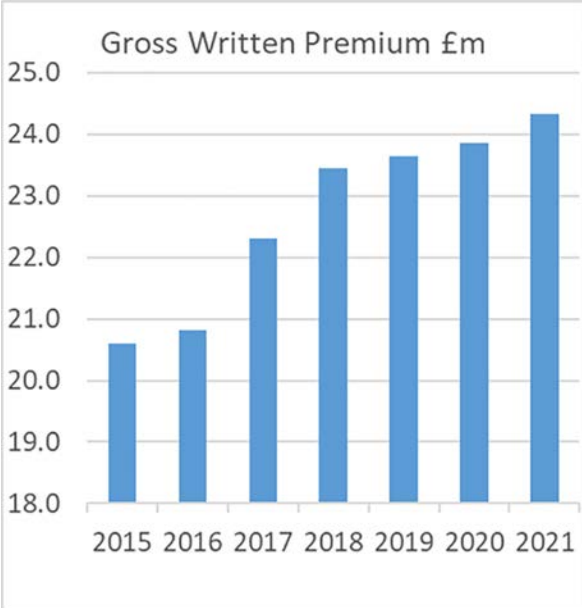
Rounded to nearest £10,000

We discuss each of these financial key performance indicators in more detail on the next page:

Gross Written Premium

Gross Written Premium increased over the period to £24,331k (2020: £23,862k). This low level of growth in Financial Year 2021 is less than what was forecast prior to the start of this Financial Year, when the ongoing impact of the pandemic remained uncertain. While we have been able to maintain our service standards throughout the pandemic, and in many ways have experienced less damage from the pandemic than other businesses, our new business activity has been restricted.

As described above, profitable, sustainable growth is one of three key objectives as we enter our new strategic period and will be a core focus as we move forwards beyond the challenges of Covid-19.



Gross Earned Loss Ratio (GELR)

Gross Earned Loss Ratio is the movement in the cost of claims, excluding the effect of reinsurance, as a proportion of Gross Earned Premium. It includes the cost of claims reported in the year and movements in the estimated cost of claims brought forward from previous accounting periods.

GELR shows the underlying performance of the book of business and reflects our ability to correctly select and price the risks we insure.

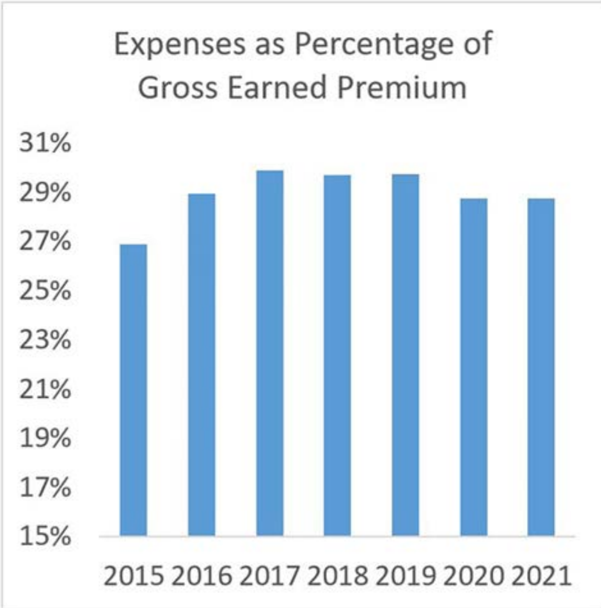
Despite underwriting broadly the same risks each year, the gross claims cost varies considerably.

This is mostly caused by the effect of a few individual large claims or, as in the case of 2014, a period of exceptional bad weather. The increasing trend from 2015 to 2020, shown in the graph to the right, has arisen due to the increase in value of a very small number of large claims during these years. This increase therefore reflects the volatility we face as a business and not a deterioration of the overall portfolio and for that reason is in line with our expectations. Without this, the loss ratio for 2020 would be well below target, reflecting more clearly the reduction in small motor claims during the lockdown of March and April 2020. This trend continues in 2021, with a lower loss ratio resulting from the low claims volumes brought about by multiple lockdowns, and no material increases to claims values in prior years.

Expenses

Expenses include net operating expenses from the technical account (those directly related to insurance) and other charges from the non-technical account. In the current year, the ratio of expenses to gross earned premium is very comparable to 2020 at 28.8% compared to 28.7% last year. This is in part due to the ongoing pandemic, which has meant some costs have reduced due to limitations on our activities, such as shows, events and travel, and compares to our pre-pandemic 2019 ratio of 29.8%.

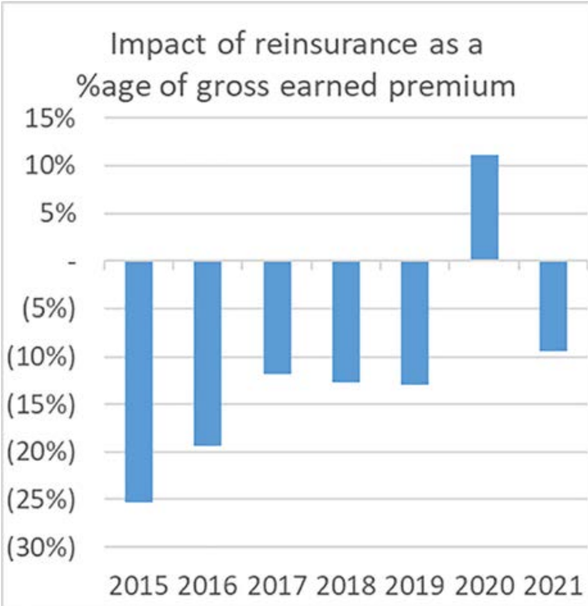
We are a Member-owned organisation, which means that any money we spend is Members' money. We recognise this responsibility and look to compare favourably against other insurers on this measure. Part of our strategy of profitable, sustainable growth is ensuring that we focus on achieving and maintaining a competitive expense ratio. We believe we can dilute some fixed costs through future growth and process efficiencies, while also committing resources to further develop the high level of service we believe that our Members want and deserve. Given that we are exclusively located in the South West, the expenses we incur largely flow into the South West also. These contribute to making the communities we serve vibrant and sustainable and ensure that value is retained in the regions in which we operate.



The Use and Effect of Reinsurance

Cornish Mutual, in common with other insurance companies, is exposed to potentially large, though infrequent, losses. Motor insurance in the UK is provided on the basis of unlimited liability, which means one individual claim could be much larger than Members' Funds.

To protect Members' Funds against the possibility of a very large claim or a large number of claims arising from a natural catastrophe, we enter into reinsurance arrangements which reduce the financial impact of such claims should they occur. Cornish Mutual's result for Financial Year 2021 reflects the use of three main types of reinsurance.



Our stop loss reinsurance arrangement commenced on 1 October 2019. This is a type of excess of loss insurance, where our reinsurer is liable for any claims amounts that exceed 70% of premium on an overall basis for losses on policies commencing in a particular year. In addition to the stop loss arrangement, we also have excess of loss reinsurance in place to provide cover in the event of specific, very large claims.

Prior to Financial Year 2020, our primary reinsurance was quota share reinsurance. This involves sharing the insurance result with an external party in return for a commission payable by the reinsurer. They take some of the profit but share in the risk of any losses which occur. Any policy written after 1 October 2019 was attached to our stop loss arrangement. However, we still have claims outstanding on policies commencing prior to 1 October 2019 and therefore attached to our quota share reinsurance. Movements on these older claims can still impact our current financial performance.

The graph illustrates the cost of reinsurance as a percentage of gross earned premium. For the purposes of clarification, the positive impact of reinsurance in Financial Year 2020 is not due to the transition to the stop loss reinsurance arrangement, but rather due to a large recovery which mitigated against a large claim from an earlier year. In Financial Year 2021, similar large movements have not occurred and so our effective reinsurance cost has reverted to around 10%.

Whilst reinsurance clearly comes at a cost, the net insurance result is less volatile than the gross insurance result. It is the net insurance result that impacts on Members' Funds.

Reinsurance protects Cornish Mutual against losses that would otherwise threaten our capital base, as described in the risk management section of this report.

Our previous quota share reinsurance programmes had been in place to protect against loss to the business, but this has been at the cost of sharing our underwriting success with reinsurance partners by a reduction in our profit.

Our current structure retains more risk against certain events which are expected to be infrequent and not occur every year. By retaining more of the risk, we retain more of the profit in intervening years, while continuing to receive sufficient capital protection against large individual losses. The stop loss also benefits Cornish Mutual with protection against an aggregation of small losses which could impact our results.

2021 has demonstrated the potential value of the current arrangements. Attributable in part to a lower number of motor claims, we experienced a low gross loss ratio similar to that last seen in 2015. Whereas in 2015 much of the benefit of this low loss ratio was passed to reinsurers, in 2021 Cornish Mutual retained the profit for the benefit of the Membership. In 2015 we retained £440k of a £5.7m gross profit and in 2021 we retained £4.0m of a £6.1m gross result as shown in the table at the beginning of this financial highlights section.

Investment Returns

Investment returns in 2021 included a rebound from the impact last year of the Covid-19 pandemic on global economic markets.

The longer-term economic impact of the pandemic remains unknown. Covid-19's impact, coupled with the pre-existing expectation of a low return environment, makes it a challenging time for insurers - especially when this is combined with the potential for market shocks.

The use of multi asset Funds gives our selected expert providers more ability to manage these challenges on our behalf.

Investment gains during the year, along with our insurance performance, has meant that Members' Funds have increased from £22.4m to £28.7m.

Cash Flow

The levels of capital prescribed by the Prudential Regulation Authority (PRA), held in Cornish Mutual as retained profit, result in significant investment assets on the balance sheet. Given the liquidity of these assets, cash flow does not present a significant risk and we maintain considerable flexibility. This situation has been consistent throughout the Covid-19 pandemic. The total amount and timing of claims payments is one of the main factors determining cash flow. This financial year has also seen the further unwinding of our quota share reinsurance arrangement, generating additional cash requiring investment. This has been overseen closely by the Investment and Capital Management Committee; more information is provided in the Committee report on page 43.

Overall Financial Performance

Premium growth in 2021 was low, but understandable given the significant disruption to the economy generated by Covid-19 and the accompanying lockdowns, which has curtailed new business activities. Sustainable growth remains a key objective of the company and underpins future performance.

Our total profit of £6.1m is much higher than forecast and is undoubtedly a significant boost to Members' Funds. The lower claims volumes over the year plus our stop loss reinsurance arrangements, which have led to us ceding less to reinsurers than historically, has led to higher than forecast insurance profits. Investment returns are also healthy but need to be viewed over a two-year period to fully reflect the impact to date of the pandemic – that is the fall they took in March and April 2020, and the subsequent recovery.

The balance sheet remains well-managed, and Members' Funds exceed regulatory capital requirements which is in line with our risk appetite. This has been consistent throughout the Covid-19 pandemic.

We have structured our investments and reinsurance arrangements to reflect the appropriate levels of risk relative to the outcomes we wish to achieve. These issues are discussed in more detail in the Principal Risks and Uncertainties section of this Strategic Report and in note 5 to the Financial Statements.

Key Non-Financial Performance Indicators

Employees: Our people are particularly important to us. The number of people engaged in the business over the past financial year is as follows:

	Male	Female
Directors	7	2
Leadership Team	10	8
All other Staff	32	47
Total	49	57

We have a policy of being as flexible as we can with working arrangements, both to ensure we fulfil Member expectations and to help us maximise opportunities for our staff. Over a third of our staff work non-typical hours, which enables them to balance work with other commitments and maintain their career aspirations. We recognise that the pandemic has accelerated a move to home working, and we continue to reflect on our longer-term approach to achieve the best outcome for our Members and employees.

Staff Engagement

We have just undertaken our third staff survey, which saw a 66% response rate. On a scale of 1 to 10, an average rating of 8 out of 10 was given with regards to how likely people were to recommend that Cornish Mutual as a good place to work (2020: 9 out of 10). While this rating has fallen over the last year, we recognise the challenges that a second year heavily impacted by the pandemic has brought and that many people have been working offsite for a large proportion of their working time over the last eighteen months. As such, we believe that both the response rate and the responses themselves illustrate strong employee engagement, given the challenges of the last eighteen months.

Net Promoter Score

Research is conducted amongst our Members by an independent external company. The research covers a sample from three of our Member cohorts; those who have recently had a claim, those who have recently taken out a new policy, and a more general cohort of Members. One of the issues we explore is the willingness of Members to recommend Cornish Mutual to others on the basis of their experiences. The results are tallied into a Net Promoter Score (NPS) which is a measure widely used as a standard industry benchmark for customer satisfaction.

In 2021 we achieved an NPS of 59% from the claims cohort (2020: 69%), 76% from the new policy cohort (2020: 82%) and 52% from the general cohort (2020: 59%). While these are positive scores relative to industry comparators, the fall in each of these areas also demonstrates that we need to work hard to continue to improve our offering to Members. The results provide us with additional insight into how we can enhance Member service, which is a core objective of our strategy.

We continue to focus on activities which will deliver quality service for our Members, exceeding their expectations, and at the same time delivering against our objectives. We continuously monitor our telephone answering to ensure compliance with our Service Level Agreements. Over the course of 2021, we answered 89.1% of all our calls within 20 seconds (2020: 92.1%), with any calls falling outside of this statistic receiving a prompt call back. With a keen focus on ensuring we identify and respond to any issues flagged by our Members, benchmarking against other insurers has indicated that we are ahead of the rest of the market in terms of the proportion of complaints we receive relative to our volume of policies.

Corporate Social Responsibility

Corporate Social Responsibility (CSR) has always been important to Cornish Mutual. The desire to use our skills and resources to make a positive contribution to the farming and rural communities in which we operate has been integral to developing and driving our CSR strategy. With the majority of our planned fundraising and sponsorship activities for 2021 affected by Covid-19, we have sought to adapt our approach so that we can continue to contribute when and where it is most needed.

In 2021, we completed over 850 hours of our “1000 volunteering hours”. This enables employees to apply to volunteer, using their paid time or skills, for causes local to them. This has included volunteering at the local foodbank, helping at vaccination centres, working as NHS check in and chat volunteers, delivering milk, collecting prescriptions and participating in the Surfers against Sewage beach clean. We have also reconditioned and donated almost 70 decommissioned laptops to allow local pupils to access online education.

With so many agricultural shows and events cancelled as a result of the pandemic, we have tried to support organisers wherever possible. We have made discretionary donations to Young Farmers Clubs who have suffered a loss of income due to the cancellation of different fundraising events and have been using our reach to promote local initiatives, charitable endeavours and to connect the local community wherever possible.

Our CSR group achieved the objective set in 2020, which aligns with UN Sustainable Goal 7, relating to use of clean energies, and we are now using 100% renewable energy within both the Truro and the Barn offices.

Future Development

Responding to Covid-19 and the challenges it has brought will continue into the next financial year. Alongside the uncertainty brought about by the pandemic, changes in farming bring to the forefront of our industry fundamental questions relating to food production, global competitiveness, self-sufficiency, food tariffs and trade. We are watching developments closely, ensuring that as the needs of farmers change, our products and services evolve too. We are keen to use technological advancements to enhance our processes and give our Members the best possible service, whilst respecting the Members’ right to choose how they wish to engage with us.

Significant changes are afoot in terms of agricultural technological developments, motivated by a desire to improve efficiency, but also increasingly to respond to the risks and challenges associated with climate change. Climate change issues are important to us both from the point of view of our Members and how it impacts their lives and businesses, but also in relation to the financial risks of climate change we may encounter as a business. This is an area which we are looking at with more focus, in line with the expectations of the PRA, as we seek to further embed risk management around the financial risks of climate change in our governance framework.

We anticipate that in addition to the changes noted above, we will also see further consolidation and diversification in the agricultural sector and will work hard to fulfil the insurance and risk management requirements of our Members.

Principal Financial Risks and Uncertainties

The Board, via the Risk and Audit Committee (RAC), ensure the risks which the business faces are managed in a prudent and conservative manner. We operate a comprehensive risk management framework through which we identify, monitor, report and manage the principal risks within risk appetite and ensure that adequate capital is held against them. The key tools to enable this to happen are the Own Risk and Solvency Assessment process and our Risk Appetite Tolerance and Controls register. The key risks which the business faces are as follows:

Insurance Risk

Insurance risk arises from the inherent uncertainties about the occurrence, amount and timing of insurance claims. This is our biggest source of risk but also the essence of our business, so we ensure a number of measures are in place to manage this risk prudently and conservatively. These include our underwriting policy, meetings of our Large Loss Committee, our Pricing Committee, and the Management Risk Committee as well as our fortnightly Business meeting which bring together the key functions to discuss strategic progress.

During the year, we have had to consider the potential impact on insurance risk of claims resulting from the Covid-19 pandemic. During the initial 'lockdown' period we saw a change in our typical claims profile on our private motor business as fewer miles were driven, leading to fewer motor accidents. We also received a limited number of enquiries from Members as to whether they had insurance cover under their commercial policies for Business Interruption due to the pandemic. Although not a party to the Financial Conduct Authority (FCA) Business Interruption test case, we have closely followed developments and fully adhered to the FCA guidance. None of our policies provide cover for Business Interruption due to Covid-19 and our policy wordings have not been the subject of review as part of the test case. Therefore, we are carrying no additional reserves in relation to this at our Year End. This was also the case for Financial Year 2020.

An essential part of managing our insurance risk is our reinsurance approach. In Financial Year 2021, we completed our second year under our stop loss reinsurance, which has allowed us to generate a better return for our Members within acceptable levels of volatility.

Counterparty Credit Risk

Given our reliance on reinsurance partners, credit risk is significant for Cornish Mutual. It is the risk of a financial loss if another party fails to perform its obligations in a timely or appropriate fashion. As well as our reinsurers, we also have exposure from banks, contractors, our investments and Members. Significant controls are in place to ensure that the risk is minimised.

Our new reinsurance structure means that the cash balance of the business will increase, which mitigates the credit risk the business faces. While we have seen a reduction in our previous quota share reinsurer's share of our technical provisions, counterparty credit risk remains relevant to our revised reinsurance structure. This is primarily due to reinsurer's share of technical provisions arising from our excess of loss reinsurance. If a stop loss recovery did arise, counterparty credit risk would also remain.

We monitor the credit ratings of our reinsurers and review their financial strength annually prior to renewal. We have now completed renewal for Financial Year 2021, with all of our reinsurers remaining within our required credit ratings.

Liquidity Risk

Liquidity risk is the possibility that the business may be unable to meet its obligations as they fall due as a result of having insufficient accessible Funds. We pursue an investment policy that means we have sufficient liquid assets to ensure that liquidity is not a significant risk for Cornish Mutual and did not increase due to the Covid-19 pandemic.

Market Risk

For Cornish Mutual, market risk includes an adverse movement in the value of assets, such as interest rates or equity prices, and is not matched by a corresponding movement in the value of liabilities. Our investment policy ensures that we have a suitably diverse balance of assets. Testing the impact of particular events on these assets, such as failure of investments and equity downturns, is a critical part of our Solvency II work, in particular the calculation of the Solvency Capital Requirement (SCR). After insurance risk, market risk is the most significant risk the company faces. We have been monitoring our investments closely in response to the Covid-19 pandemic and liaising frequently with our investment manager throughout the period. More information can be found on this in the Investment and Capital Management report on page 43.

Operational Risk

Operational risk relates to a loss resulting from inadequate or failing internal processes, people and systems or from external events, for example a disruption to the business by natural catastrophe. This year, we continued to work efficiently off-site without diminishing our service to Members. We are pleased the results of our pre-pandemic planning allowed us to continue to deliver the service our Members deserve.

Covid-19 illustrates the potential impact that operational risk can present, and therefore particular focus is placed on such risks by the Board, with a variety of mechanisms in place to both mitigate their effect should they arise, and to prevent them arising in the first place.

Pension Risk

The value of our defined benefit pension provision includes a high degree of uncertainty. While the pension liability is shown as nil, this number is sensitive to assumptions about future interest rates, inflation and longevity of pension holders.

Despite the Covid-19 pandemic, our defined benefit pension is in surplus based on the latest valuation. However, this has not been recognised because there is not an unconditional right to the surplus and a benefit to the company is not anticipated to arise. The valuation basis for accounting purposes does not necessarily reflect the full liability of the pension if these assumptions were to change or if the company sought to pay another company to take on these liabilities. Accordingly, risk associated with the pension remains, although it now appears with a nil value in these financial statements.

Between the end of the Financial Year and signing our Annual Report, the Pension Trustees entered into a buy-in transaction with Legal and General to match the liabilities of the Cornish Mutual Pension Scheme. The intention is for the Scheme to ultimately move to buy-out during the next financial period. This transaction will be reflected in next year's Financial Statements.

Climate Change

Internally, and consistent with the regulator's wishes, a significant amount of focus has been on understanding the financial risks of Climate Change and implementing the recommendations set out by the Taskforce on Climate-related Financial Disclosures (TCFD). The TCFD have published their recommendations, which are categorised as Governance, Strategy, Risk Management and Metrics and Targets. For each of these sections, we provide an update below.

Governance

TThe RAC and the wider Board recognises the tests that Climate Change, as a new but fast-moving risk, will bring to the Company, and we have greatly increased our consideration of the financial risk and opportunities that arise from Climate Change during the year. To enable effective decision making in this area we have undergone a programme of training; engaging with external specialists, attending industrywide talks and reviewing literature specifically aimed at the agricultural industry.

To accompany this, Climate Change has featured as an agenda item at each Board meeting alongside regular updates from our Climate Change Strategy Group on internal developments to promote discussion. The Climate Change Strategy Group has been formed with a wide representation from across the business and is led by our Insurance Director (who also acts as our Chief Risk Officer). He has been allocated responsibility for identifying the financial risks from Climate Change as a Senior Management Function holder, in line with the PRA's expectations. Two further Committees (the Corporate Social Responsibility Committee and Future of Farming Group) feed into the Climate Change Strategy Group, looking at issues from an internal and external point of view at an operational level.

In addition to Board engagement, the Climate Change Strategy Group have provided training to all employees. This has embedded knowledge throughout the business and encourages our front-line people to identify risks and opportunity at source and as they emerge, allowing for a quick operational response.

Strategy

Climate Change has the potential to cause inherent risk, not only to Cornish Mutual but to the Membership as a whole, however alongside the challenges which will be posed there will also be opportunities, which if engaged with correctly, can further enforce and support our strategic objectives.

Our core customer base, the agricultural sector, has the chance to respond to Climate Change by embracing changes which will contribute to reducing increasing temperatures. At Cornish Mutual, we want to support farm businesses as they work to deal with both the physical aspects of Climate Change, such as more frequent storms, and transition risks which will help to promote a lower-carbon economy, as well as work to reduce our own impact. To do this, we are engaging with both external providers and the Membership to understand the insurance products and broader risk solution services which are available for the Membership.

Cornish Mutual has engaged with industry consultants and together developed a model which identifies key Climate Change drivers which have the potential to prevent a level of financial risk to the business. These drivers can then be monitored for development over a short and long-term basis and be used to determine prioritisation of each risk category. This enables the Company to develop business strategy and financial planning accordingly. To ensure the drivers are relevant both to the Company and the Membership, a farm risk survey has taken place to establish levels of priority, areas of concern and current levels of management in place.

On a practical note, we have established an internal loss adjusting provision, which would help us maintain our high service standards in the event of a surge-related event. This improved skillset also contributes to fulfilling one of our core strategic objectives of Empowered people.

As part of our review of the financial risks arising from Climate Change, we have to undertake a review of investment portfolios to ensure that we do not hold carbon heavy assets. We have engaged with our investment manager to understand the risk presented within our current holdings and to understand the way Climate Change considerations are evaluated in line with regulatory expectations. Please refer to page 43 (Report of the Investment and Capital Management Committee) for more information.

Risk Management

In line with emerging best practice, the risk from Climate Change is considered as cross cutting and is integrated into our risk framework in this way. As a specialist niche insurer, we will continue to take a proportionate response that fully recognises that our core farming Membership will be significantly impacted. Risks within Cornish Mutual are grouped into various categories, which are then reviewed against key considerations to understand which areas present the most risk to the business in terms of the financial impact from Climate Change. Considerations have been grouped into those which are internally controlled versus those where there is more external influence.

All risk categories within the business have been reviewed by the Management Risk Committee to establish whether they have the propensity to be impacted by Climate Change. Nineteen specific risk areas were identified within the categories and an exercise took place with the risk owners to consider the potential short (5-year horizon) and long term (30-year horizon) effects. These will now be monitored within the current framework, engaging with external specialists as and when required, enabling us to make decisions on the level of risk which the business is able to absorb and control.

Metrics and Targets

As our response to Climate Change unfolds, we are looking at our own carbon footprint, with plans being developed to both reduce and offset this.

Fair, balanced and understandable

The Directors assert that the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable. In making this assessment, the Board has considered the process followed to draft the Annual Report and Financial Statements, and in particular the following stages:

- Each section of the Annual Report and Financial Statements is prepared by a Member of management with appropriate knowledge, seniority and experience.
- The overall co-ordination of the production of the Annual Report and Financial Statements is overseen by the Finance Director. In addition, the Company Secretary carries out a review to ensure consistency across the document.

Going Concern and Future Planning

Our forecasts and projections, taking account of reasonably possible changes in trading performance, including the impact of the Covid-19 pandemic, show that the Company should be able to operate within the level of current resources over a period of at least twelve months from the date of approval of these financial statements. After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its Financial Statements.

The Own Risk Solvency Assessment (ORSA) process identifies the assumptions which we have made in assessing how the business will develop and results in an annual report available to our Regulators. A full explanation of the ORSA is included in the Report of the Risk and Audit Committee on page 37.

We produce a five-year plan with a forecast balance sheet for each year. We adopt a five-year period as we consider it possible to anticipate likely reinsurance arrangements and cash flows for this length of time. We have modelled one forecast assuming our existing stop loss and excess of loss cover is in place, and another where just excess of loss cover is maintained. These reinsurance types are explained on page 13. We reviewed our five-year plan in light of the impact of the Covid-19 pandemic and were comfortable that the assumptions made, and the forecast numbers, remained reasonable.

The balance sheet for each scenario is subject to stress testing as our Regulator would expect, to ensure they would meet regulatory capital requirements at each future period.

As a result of this work, we have a reasonable expectation that the Company will be able to continue to operate and meet its liabilities as they fall due over the next twelve months. The key assumption supporting this expectation is the continuing availability of appropriate reinsurance cover being available.

On behalf of the Board

Peter Beaumont

Managing Director

14 December 2021

DIRECTORS

Directors' Report

The Directors have pleasure in submitting the Annual Report and audited Financial Statements for the Company for the year ended 30 September 2021.

The following served on the Board of Directors during the year ended 30 September 2021:

JP Oatey Chair of Board
PJ Davies BSc, C Dir, FPMI, FIDM, FIOD
PS Beaumont Managing Director BSc, FCA, Cert CII
RB Cawse MA (EXON), DMS, FCIB, FRSA
CW Pears BA (Hons), ACII
R Lane TD, BA FCMI, FCII
SE Turner OBE, FRSA, LLB (Hons)
PWD Mahon Insurance Director BSoc Sc, FCII
CE Green Finance Director BA (Hons), FCA
MP Schwarz Company Secretary BS, MSc

Directors' and Officers' Insurance

The Company has purchased Directors' and Officers' Liability Insurance for Directors and Officers as permitted by the Companies Act 2006. This cover is provided by Travelers Insurance Company Ltd to a limit of £2.5 million in any one period of insurance.

Financial Risk Management Objectives

The Strategic Report includes an assessment of financial risk management objectives, which can be found on pages 17-20. Additional information relating to risk management can be found in note 5 on page 73 and in the Report of the Risk and Audit Committee.

Future Developments

Future developments have been disclosed in the Strategic Report on page 17.

Directors

All Board Members have served fewer than nine years. Clare Green was elected as a Director at the Annual General Meeting on 25 March 2021. Paul Davies and Jeremy Oatey were re-elected as Directors at the same meeting.

Auditors

BDO have conducted the audit for the Financial Year ended 30 September 2021. They assumed responsibility for auditing Cornish Mutual from PwC, who completed their four years as the Company's auditors in 2020. BDO were appointed by the Membership at the Annual General Meeting in 2021.

Director's Confirmations

In the case of each Director in office at the date the Directors' report is approved:

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

Post Balance Sheet Event

As noted in the Strategic Report on page 18, between the end of the Financial Year and signing our Annual Report, the Pension Trustees entered into a buy-in transaction of the defined benefit Cornish Mutual Pension Scheme. The intention is for the Scheme to ultimately move to buy-out during the next financial period, which will be reflected in next year's Financial Statements.

M. Schwarz

Margaret Schwarz
Company Secretary
14 December 2021

Statement of Directors' Responsibilities in Respect of the Financial Statements

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law, the Directors have prepared the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law, Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the Financial Statements, the Directors are required to:

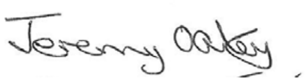
- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the Financial Statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The Directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps in the prevention and detection of fraud and other irregularities.

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.

The Directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

On behalf of the Board



Jeremy Oatey
Chairman

14 December 2021

The AFM Corporate Governance Code

The Company uses the 2019 edition of the AFM's Corporate Governance Code* as a benchmark to demonstrate good governance. The following section sets out the Code, how Cornish Mutual applies its provisions in governance, and where in this Annual Report or elsewhere, compliance with the provisions is evidenced.

THE PRINCIPLES	HOW WE APPLY THEM
1.PURPOSE AND LEADERSHIP An effective Board promotes the purpose of an organisation, and ensures that its values, strategy and culture align with that purpose.	Our enduring purpose is to protect the farming communities of Cornwall, Devon, Dorset and Somerset. This is described in more detail in the Strategic Report on page 4. This purpose drives our strategy and is the heart of the values and culture of the organisation. As a mutual, our Members and the protection of their interests is central to all our decisions. The Board is responsible for ensuring strategy aligns with purpose; it leads by example the values of the organisation. Our values (also called behaviours) are: • Putting Members at the heart of everything we do • Developing self and others • Actively working together: one team where no individual is stronger than all of us. These support our strategy to deliver our purpose. Each Board Director is appraised annually on the Company and Board specific behaviours.
2. BOARD COMPOSITION Effective Board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a Board should be guided by the scale and complexity of the organisation.	The Cornish Mutual Board is mindful of the need to ensure the right balance of skills, experience, and background in recruiting Directors. We recognise that more diversity in gender, ethnic backgrounds and experience would benefit the Company and consider this a priority in our recruitment. Competence relevant to the needs of our business remains most important in our recruitment. To further diversity as well as maintain expertise, we developed a skills matrix to focus our attention when recruiting future Directors. We need a Board that is large enough to meet the requirements of governance and strategic oversight, but small enough both to be cost effective and nimble at making decisions. The Remuneration and Nomination Committee annually considers the size of our Board and considers whether the current mix of three Executive and six Non-Executive Directors is right for Cornish Mutual. As mentioned above, each Director has an annual appraisal to ensure they remain both effective and, for NEDs, independent. All our Directors have served under nine years. The Board conducts an annual effectiveness self-assessment and at each meeting considers what went well and what could be improved. Periodically, we ask external parties to evaluate our Board performance. In 2021 we commissioned PKF Littlejohn to conduct an audit of our Company governance, risk management, and compliance, which found us to be controlled with procedures and mitigations in place and effectively applied.

*Full text of the new Code is available at www.financialmutuals.org/governance/our-governance-code/

THE PRINCIPLES	HOW WE APPLY THEM
3. DIRECTOR RESPONSIBILITIES The Board and individual Directors should have a clear understanding of their accountability and responsibilities. The Board's policies and procedures should support effective decision-making and independent challenge.	The Company's Board Charter, Memorandum and Articles of Association, Scheme of Delegation, and responsibility maps clearly spell out for Board Members what their responsibilities are towards Cornish Mutual. Those Board Members who hold Senior Management Functions (SMF) under the FCA/PRA Senior Management & Certification Regime also have an individual Statement of Responsibility (SoR) which is submitted to the regulator at the time of their appointment as a SMF holder and updated as required to reflect any changes in responsibility. Cornish Mutual has three Board sub-Committees to assist the Board in undertaking detailed deliberations. These Committees are: Investment and Capital Management (see page 43), Remuneration and Nomination (see page 47) and Risk and Audit (see page 37). Each Committee has a comprehensive terms of reference. Directors declare their interests at least annually and any potential conflicts of interests are openly documented and managed. The Board receives training on important topics and regularly reviews the Board level policies that guide the Company's operations. The Board receives comprehensive management information to assist its decision-making. This information is continually reviewed and refined to make sure it is fit for purpose and adapts to changes in the Company's operations.
4. OPPORTUNITY AND RISK A Board should promote the long-term sustainable success of the organisation by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.	The Company's clear purpose and strategy ensure the Board puts the long-term interests of its Members front and centre. The Board is ever mindful of the dilemma of mutuality: the interests of existing Members at any point in time may differ from the needs of the business to generate a surplus sufficient to enable investment, for example in new technologies or skills, and/or the growth of the business. Both capital investment and sustainable growth benefit future Members but are made possible using the Funds provided in large part by past and existing Members. This means we must be very clear as to the benefits to Members that we expect to come from our strategic decisions to balance these needs over time. The Company has a comprehensive risk oversight and management structure in place as reported on page 37. The risks faced by Cornish Mutual are set out on pages 17-20 above.

THE PRINCIPLES	HOW WE APPLY THEM
5. REMUNERATION A Board should promote executive remuneration structures aligned to the long-term sustainable success of an organisation, taking into account pay and conditions elsewhere in the organisation.	The Company must have credible leaders with professional expertise as well as personal values that correlate with those of Cornish Mutual so we can deliver value and service to Members. In order to attract and retain skilled and expert people, the pay we offer must be competitive within the financial services sector; commensurate with the complexity of the role; and in line with our commitment to mutuality. Unusually in the financial services sector, we do not pay our executives bonuses so that we remove the risk of conflicts of interests. The Report of the Remuneration and Nomination Committee on page 47 has more information on pay and related matters.
6. STAKEHOLDER RELATIONSHIPS AND ENGAGEMENT Directors should foster effective Stakeholder relationships aligned to the organisation's purpose. The Board is responsible for overseeing meaningful engagement with Stakeholders, including the workforce, and having regard to their views when taking decisions.	We are a values-driven business and we work hard to ensure we understand the particular needs of our core Membership. To this end, we undertake significant amounts of training relating to rural and agricultural issues. In normal times, the Board actively engages with Members and prospective Members at agricultural shows. Obviously Covid-19 restrictions in 2021 meant this aspect of engagement was sadly curtailed for a second year, although we have attended some shows as restrictions eased. We have embarked on a series of Future of Farming events to engage with our Members in a different and more focused way. We are a Chartered Insurer which means we uphold both technical and ethical standards established by the Chartered Insurance Institute and are assessed annually on our adherence to these standards. Our people are particularly important to us. The Board is committed to hearing the views of colleagues across the business. This includes listening to and acting on issues arising from our now annual staff survey; NED participation in company-wide Board debriefs; NED attendance at the Management Risk Committee from time to time; shared workshops on topics including strategy, IT and marketing; and inviting non-Board colleagues to present papers at Board meetings. Cornish Mutual engages with a variety of third-party suppliers to deliver our desired business outcomes. Our relationship with suppliers is governed by the Board Policy on Outsourcing and Supply Chain Management. We remain focused on Climate Change and the green agenda, especially how it is affecting UK agriculture. We have an active group looking to reduce our carbon footprint as a business. We continue to actively consider the financial effects of Climate Change for both the Company and our Members. We strive to be a responsible member of the communities in which we operate. We have supported individuals through work placements and have further enhanced our support for Young Farmers across the areas where we do business. We have continued to support agricultural charities as well as encouraging colleagues to volunteer (when this is possible). Please see the Corporate Social Responsibility area of our website for more information on our community engagement.

Function and Responsibility of the Board

The key function of the Board of Directors is to ensure that the business is run in an appropriate manner. The Board meets at least six times a year. In addition, we hold strategy sessions where we focus on wider issues which affect our business and check that our plans remain appropriate.

Covid-19 restrictions once again prevented us from meeting in person until July 2021, when we held our first face-to-face Board meeting since February 2020. We continue to use computer conferencing with enthusiasm and see it as a way of reducing the need to travel distances for meetings and therefore reducing our carbon footprint. Our Annual General Meeting was again held on the Zoom platform on 25 March 2021. We consider this an effective way to encourage more Members to attend the AGM and have changed our Articles of Association to permit this. Committee meetings continue to be held virtually, although some members of the Board are in the office, with appropriate social distancing, for the meetings. We will adopt a mixed approach to Board meetings, encouraging physical attendance where possible, but allowing remote participation as well.

The Board works to a Schedule of Matters contained in the Board Charter, which is updated and approved each year. All meetings are formally minuted. The main focus of the Board is on the following areas:

- Strategy and Management which includes approving long-term objectives and monitoring the Company's performance against the objectives.
- Governance and Culture which includes assessing the composition and competency of the Board and the policies which guide the Company, as well as Stewardship of Members' Funds which includes selecting investment managers and strategies.
- Financial Reporting and Controls which includes approval of the Annual Report and Financial Statements, following recommendation from the Risk and Audit Committee.
- Communication and Reputation which includes engagement with Members and ensuring polices are in place to deliver high quality service and products.
- Remuneration which includes following the recommendation of the Remuneration and Nomination Committee in determining the salary budget for the Company as a whole and remuneration of Directors. Director remuneration is subject to Member confirmation at the Annual General Meeting (AGM).
- Delegation of Authority which includes the Company-wide scheme of delegation and terms of reference for various committees.

The Board Members for this fiscal year are listed on pages 23 and 31 to 33. Cornish Mutual operates with a separate Chair and Managing Director who maintain an effective balance of responsibilities and accountabilities. Jeremy Oatey as Chair is responsible for the effectiveness of the Board. His duties, and those of all Directors, are detailed in our Board Charter which is available in short form on the Company website www.cornishmutual.co.uk or in full by request.

The information used by the Board and the wider business for decision-making and reporting is governed by Board policies, the Board Charter, regulatory requirements, and best practice guides of the CII and other professional organisations relevant to our business. The integrity of the Company's financial information is audited annually, and our data and information related processes are periodically reviewed by our externally provided internal audit service, most recently in 2021.

The Cornish Mutual Board consists of three Executive Directors and six Non-Executive Directors.

Non-Executive Directors must be independent in character and judgement, so they are able to effectively challenge the Executives. All the current Non-Executive Directors are independent in both respects.

The Board directly, and through the Remuneration and Nomination Committee, monitors succession planning in the business and has succession plans covering senior management function holders in place.

In accordance with Solvency II requirements, Cornish Mutual formally conducts its Own Risk and Solvency Assessment (ORSA) at least annually. We prepare an ORSA report which we send to the Prudential Regulatory Authority. The purpose of the ORSA is to provide both the Board and the regulators with evidence that the Company frequently and systematically assesses the risks it faces in respect of maintaining solvency capital and achieving its objectives over a five-year horizon. The ORSA provides the Board with assurance that under the reasonable risk scenarios set out, Members' Funds would remain above minimum regulatory requirements and the business remains viable.

The Management Risk Committee which consists of Executive Directors and Senior Leaders within the business, meets six times a year, up from quarterly in previous years, to thoroughly review the risk register. The results of this deliberation are reported through to the Risk and Audit Committee.

Last year, we incorporated the financial risk from Climate Change into our risk management processes. We expect the identification and management of this to develop further over the next few years. See the Report of the Risk and Audit Committee starting at page 37 for more information on risks and risk management and control.

Board Members

Jeremy Oatey

Board Chair

Jeremy previously worked nationally in farm management for both corporate institutions and private individuals. He was able to return to Cornwall to start his own farming business which now provides land management solutions to a number of local landowners. In addition, Jeremy also runs a vegetable processing company supplying a number of major local food producers. He has been a Member of Cornish Mutual for many years for both his business and private needs. Jeremy also works to provide support to a number of local rural businesses and organisations.

Paul Davies

Senior Independent Director

Paul Davies has a strong background in Financial Services and brings his excellent experience in pensions and general insurance skills to Cornish Mutual. In addition to his role with Cornish Mutual, Paul is also a pension fund trustee with Unum Limited. Based in Gloucester and a graduate of the University of Southampton, Paul has experience as a Managing Director, Chief Operating Officer, and Marketing and Business Development Director delivering major growth projects, acquisition, and change management success. Paul has a wealth of knowledge he can share with the businesses and the Members we work for.

Roger Cawse

Non-Executive Director

Roger spent 42 years working in Financial Services, the last 17 of which were as a Chief Executive in private medical insurance. He has held both Executive and Non-Executive posts on the Boards of several Friendly Societies, in addition to previous experience as Chair of the Finance Committees of a major national housing association and a Hospiscare charity. Born and raised in Devonport, Roger graduated from the University of Exeter with a Master's degree in Leadership Studies. He has resided in Devon for most of his life and now lives in Cornwall.

Charles Pears

Non-Executive Director

Charles lives in Cornwall where he is involved in the agriculture and tourism sectors. He is an experienced insurance and investment professional, originally from a farming background. In addition to being a NED for Cornish Mutual and chair of the Investment and Capital Management Committee, he is a NED for Coastline Housing and an independent Trustee of the Southern Housing Group pension schemes.

Richard Lane

Non-Executive Director

Richard began his insurance career supporting farming communities. He was previously Managing Director at Ansvar Insurance, and has also worked at LV, Zurich and RSA. Richard served as an Army Reservist, finishing his Army career by developing Leadership training and the civilian accreditation of training undertaken Army-wide. He is also currently Development Director for Edwards Insurance Brokers and a Governor of Linwood School in Bournemouth which supports SEND pupils. Richard is a Chartered Insurer and Chartered Manager.

Sue Turner

Non-Executive Director

A Bristol University Law graduate, Sue has spent 15 years in communications and government relations and raised over £25 million for charity. In 2021, she was awarded the OBE for Services to Social Justice, completed her MSc in Artificial Intelligence and Data Science and founded AI Governance Limited. She is Board Chair of the Faculty of Clinical Informatics and a NED and Chair of Cornish Mutual's Remuneration & Nominations Committee. Sue's maternal grandparents were Kent farmers.

Peter Beaumont

Managing Director

Peter has been with Cornish Mutual since 2009 and has gained a great affinity for the mutual sector. He believes that Cornish Mutual can contribute more widely to how the farming community adapts to the challenges it faces and engages with other farm insurance mutuals across the world to help identify new ideas. All businesses are wrestling with shifting priorities and Peter is committed to the idea that cooperative action provides a compelling model for supporting the required changes. While technology and data clearly offer opportunities, Peter is determined that technology supports the face-to-face service ethic and does not replace it.

Paul Mahon

Insurance Director and Chief Risk Officer

Paul has extensive experience in Financial Services, having begun his career in 1992 working with Guardian Insurance. He then spent many years in the London Insurance Market and worked for EY and PwC acting as a consultant to many of the UK's leading general insurers. Paul, a Chartered Insurer, is a Fellow of the Chartered Insurance Institute and a graduate of the University of Birmingham. He joined Cornish Mutual in 2011 and became a Member of the Board in 2018, taking up the role of Insurance Director. Paul is passionate about the rural community in the South West and he knows the region very well, having spent his childhood growing up in South Devon. Paul is married with two children and he lives on the South Cornwall coast in Falmouth.

Clare Green

Finance Director

Clare has worked in the insurance industry for 16 years, having undertaken her chartered accountancy training in London, while working as a forensic accountant advising insurers on the quantum of complex losses. She is a graduate of the University of Durham and a Fellow of the Institute of Chartered Accountants in England and Wales. Clare moved to Cornwall in 2011 and shortly after began working at Cornish Mutual, becoming Finance Director and being appointed to the Board in 2020. Clare is married to a Cornish farmer, and along with their two young children, they live on a grassland farm near Falmouth, which has been in her husband's family for five generations. The farm has a herd of suckler beef cattle along with a range of diversified interests. Clare is currently Finance Trustee for iSight Cornwall, which is a Cornwall-based charity focused on supporting people with sight loss to lead active and independent lives.

Board Committees

The Board operates three committees:

- A Risk and Audit Committee chaired by Richard Lane. Other current Members of this Committee are Charles Pears, and Sue Turner. Paul Davies stepped down as Chair of the Committee in April 2021.
- An Investment and Capital Management Committee chaired by Charles Pears. Other current Members of this Committee are Paul Davies and Richard Lane.
- A Remuneration and Nominations Committee chaired by Sue Turner. Other current Members of this Committee are Roger Cawse and Jeremy Oatey.

Committee Membership is elected annually at the Board meeting following the Company's AGM which is held in March. Each Committee operates to a schedule of matters that forms part of its terms of reference. The three terms of reference and schedules of matters are contained in the Board Charter and available on request. All meetings are formally minuted and each Committee also undertakes an annual self-assessment of its effectiveness. The full details of the work of each of these Committees are included later in this document, starting at page 37.

Board and Committee Meeting Attendance

	Board Meetings	Risk & Audit Committee	Remuneration & Nominations Committee	Investment & Capital Management Committee
Jeremy Oatey	6/6		3/3	
Peter Beaumont	6/6	5/5*	3/3*	4/4*
Roger Cawse	6/6		3/3	
Paul Davies	6/6	3/3 Retired from Committee 03/20		4/4
Richard Lane	6/6	5/5	Observed 09/21 meeting	4/4
Paul Mahon	6/6	5/5*		3/4*
Charles Pears	6/6	5/5		4/4
Sue Turner	6/6	5/5	3/3	
Clare Green	6/6	5/5*		4/4*

*In attendance

Committee Member

Remuneration

The approach to remuneration at Cornish Mutual is set out in the Board Policy on Human Resources. The Directors' and Executive Pay Policy section was specifically approved by the Members as part of the Annual General Meeting in 2018. See the Report of the Remuneration and Nomination Committee starting at page 47 of this report for more information on pay and related matters.

Directors' Remuneration

Year ended 30 September 2021

Director	Remuneration (£)	Benefits (£)	Pension (£)	Total 2021 (£)	Total 2020 (£)
P Beaumont	165,213	323	19,200	184,736	184,561
R Cawse	22,917	774	-	23,961	25,831
P Davies	25,000	774	-	25,774	25,831
C Green**	94,148	323	10,560	105,031	47,303
R Lane	22,083	774	-	22,857	20,831
P Mahon	126,050	323	14,340	140,713	137,914
J Oatey	50,000	323	-	50,323	33,929
C Pears	23,000	323	-	23,323	23,346
S Turner	21,250	323	-	21,573	21,596
A Goddard*					58,056
I J Pawley*					25,281
	549,662	4,260	44,100	598,022	604,479
National Insurance				**65,139**	**65,346**
Total				663,161	669,825

* Partial year.

** Pro-rated

An error identified in relation to Directors' salaries involving one Director has been amended and corrected.

On behalf of the Board

Margaret Schwarz
Company Secretary

14 December 2021

REPORT OF RISK AND AUDIT COMMITTEE

Responsibilities of the Committee

The purpose of the Risk and Audit Committee (RAC) is to examine all corporate governance, risk and audit matters that affect the Company. The RAC also assist the Board in satisfying itself that the Company's risk management systems and internal controls (including the internal audit and compliance functions) are appropriate, proportional and sufficient to control, manage, and mitigate strategic and operational risks. The Committee is also responsible for the oversight of the Company's ORSA process. Additionally, the Committee reviews the work and findings of the External Auditors, the outsourced Internal Audit functions and any other audit reports whether internal or by third parties.

Over the course of a year, the RAC has a rolling programme covering a variety of standing items such as the framework for reporting reserves, whilst also having the capacity to look at new and emerging factors and risks. Specific attention is given to topics that we consider particularly significant, including the issues and judgements relating to the development of large, complex, claims.

Membership

The Committee is comprised solely of Non-Executive Directors with recent financial experience relevant to insurance although the Executive attends meetings. All other Directors of the Board are also able to attend meetings with the agreement of the Committee Chair. The Committee also meets without the Executive as and when the Chair considers it appropriate to do so and in particular when reviewing the annual Financial Statements with the external auditors. The RAC undertakes an annual evaluation of its performance and effectiveness. Paul Davies chaired the RAC from 2016 until April 2021 and he is to be thanked for his significant contribution to the development and efficacy of the Committee. Richard Lane took over as Chair of the RAC in April 2021.

Review of Activity

1. Own Risk and Solvency Assessment (ORSA)

The Company's ORSA process comprises a continuous forward-looking assessment of extant and future potential risks to its business strategy, its solvency position and capital management. It describes how the Company is organised and governed, future business strategy, risks to achievement of that strategy and how such risks are mitigated, how capital is measured and used to support the strategy, the Company's systems of internal control and how a culture of risk awareness is embedded throughout the organisation. The Board annually reviews the ORSA Policy which sets out the process to be followed by the Company in future years, individual roles and responsibilities and the timetable, recording and reporting processes. The annual ORSA Report is available to regulators, with quarterly returns submitted to update on major changes and the latest financials in respect of capital and solvency. The RAC is responsible for recommending updates to the ORSA Report, which are signed off by the Board each year prior to the Company's AGM. The Committee gives specific consideration to the regulatory requirements on the underlying assumptions in the Standard Model Formula for the purposes of calculating its Solvency Capital Requirement (SCR) and continues to recommend that use of the Standard Model adequately represents the risk profile of the Company. The significant change in reinsurance coverage as approved by the Board, moving from quota share to stop loss, (initiated in October 2019) was completed by September 2020 and is now embedded within our ORSA reporting.

2. Key Functions: Actuarial, Risk Management, Internal Audit and Compliance

Actuarial Function

The Actuarial Function is constituted formally in response to Article 48 of the Solvency II Directive. The function is charged to think independently about areas of Cornish Mutual that deal with uncertainty and risk and look to introduce appropriate mechanisms to quantify and address those risks.

The Actuarial Function is headed by Peter Beaumont, who is the designated "Chief Actuary". The role is a vital control function for delivering robust techniques within the control areas, minimising bias whilst being conscious of the limitations and sensitivities to the assumptions deployed.

An Actuarial Function Report is prepared annually, comprising a review of Technical Provisions, Opinions on Reinsurance Adequacy and Underwriting Policy, and Contribution to Risk Management. This report is updated on a periodic cycle recommended by the Chief Actuary and informs the Committee and Board on the uncertainty inherent in numerical projections, judgments, and conclusions. The Report is utilised by our external auditors as a key component in support of its audit remit.

Employees in the Company who have the necessary specialist knowledge and experience discharge the duties of the function. The methodology deployed and outcomes derived are reviewed and discussed at the Risk and Audit Committee through review of the Actuarial Function Report on Technical Provisions and the management account analysis and commentary. Additionally, when our external auditors (previously PwC and for 2021 BDO) complete their statutory audit of Financial Statements, the reserves are identified as a significant risk and an area of focus for the audit. RAC review the basis of the Company's claims reserving methodology each year, and a part of this is to seek such independent assurance periodically on a risk assessed basis. In each of the last three financial years, our external auditors used an independent projection approach, utilising their independent reserving model. This, along with the review and challenge of the reserves documentation and calculation, has provided assurance that the methodologies used in assessing the liabilities at 30 September 2021 are robust.

Risk Management

A culture of risk awareness is firmly embedded throughout the Company.

The key function of Risk Management is carried out by the Management Risk Committee (MRC), which meets six times a year and reports via the Insurance Director (who is also designated by the Board as Chief Risk Officer (CRO)) to the RAC. The MRC focuses on the major risks, progress with controls and actions, the trend in risk levels, new emerging risks, or the removal of risks no longer valid. Our Risk Register is focused on our People, Prudential, Legal & Regulatory, Member Expectations and Operational risks. During 2021 our approach was subject to an outsourced Internal Audit by PKF Littlejohn and was graded "controlled" with no significant or major findings. We feel this reflects the qualitative improvements we have made in risk management and reporting.

Computer penetration tests are carried out to protect Members' data. The Committee is satisfied that no data held by the Company has been threatened by unlawful access during the financial year.

The Company purchases cyber risk insurance to cover losses that might arise from a damaging cyber-attack on data or systems. Our focus remains on preventing such attacks by careful IT system design and control, whilst also training employees on cyber risk awareness and prevention.

The Committee conducts an annual review of the Board's Risk appetite and examines the Risk Register and the underlying trend in risk levels at each meeting. The Register describes the source and nature of each risk, its likelihood and potential impact on the Company, control and mitigation processes, review procedures and any actions required to bring the risk in line with the Board's Risk Appetite. Actions are documented within the Register, with dates for completion and responsibility assigned to individuals by the Executive.

Internal Audit and Compliance

The Board's Policy on Internal Audit and Internal Control is mandated by the Board Charter. The Head of Internal Audit and Governance Leader reports directly to the Chair of the RAC.

The RAC is satisfied that the systems of internal control and compliance are fit for purpose, proportionate to the scale of its activities and effective in providing appropriate assurance.

In technical areas such as underwriting and claims the RAC considers the increasing complexity of the insurance market and regulation requires a higher level of assurance than can be provided internally. The RAC contracts with PKF Littlejohn to provide internal audit services to the Company in accordance with an agreed Audit Universe which follows a four-year cycle.

The policy of the RAC and the Board remains to continue to seek independent assurance concerning all technical aspects of the Company's operations and activities over a four-year cycle from experts in different fields and from the Company's External Auditors. The internal Validation and Support framework provides a comprehensive audit of operational processes in accordance with an agreed annual review cycle. No systemic problems were identified in 2020/21.

During the year ending 30 September 2021, the following internal audit reports were reviewed and management actions agreed:

- Claims (final report November 2020)
- Claims Leakage (final report January 2021)
- Governance (final report March 2021)
- Risk Appetite (final report September 2021)

Cornish Mutual embeds compliance into business operations rather than establishing a separate function, although we do have individuals charged with overseeing compliance. This ensures that legal and regulatory requirements are satisfied and do not suffer because of operational resource or performance pressure, so that effective independent challenge and enforcement of regulation exists. The Executives report to the RAC and thence the Board any breaches of regulation that may occur. No Compliance breaches were reported in the year ending 30 September 2021.

A Letter of Assurance from the Chief Risk Officer to the Board Chair forms part of the annual control process. The RAC scrutinised and approved the annual Letter of Assurance in respect of the year ended 30 September 2021. It was found to be a complete and accurate reflection of how control processes had operated effectively to identify and address both current and emerging issues arising during the year.

3. Review of Board Policies

The RAC reviews the effectiveness and appropriateness of all Board policies having a Risk or Audit relevance, according to a prescribed periodic schedule and on an ad hoc basis as required. The RAC examined those policies contained in its Schedule of Matters and due for review during the financial year and can confirm that they operated effectively. A complete list of Board policies can be found within the Board Charter.

Annual Financial Statements, External Audit, and Business Continuity Planning

Annual Financial Statements

The RAC approved the External Audit plan for the year at its meeting in September 2021 and confirmed focus on the following areas of audit emphasis:

- Management override of controls
- Revenue recognition
- Valuation of technical provisions
- Valuation of pension scheme obligations

Throughout the year, the RAC receives updates on key judgements in relation to reserves, whether through the minutes of the Large Loss Committee or updates on specific claims. This insight gives the RAC the opportunity to challenge management to ensure robustness of reserves. Another element is through independent assurance. The RAC met in November 2021 to receive a detailed presentation from our External Auditors, BDO, in respect of the audited Financial Statements for the year ended 30 September 2021. Non-Executive Members of the Committee and the independent Chair of the Board also met in private with the External Auditors and received assurance regarding the conduct of management during the audit, and the quality and completeness of the accounting records of the Company. The Committee approved the Technical Provisions after scrutiny of the methodologies used.

External Audit

As reported last year, the Company appointed BDO following a competitive tender process, subject to agreement at the 2021 AGM, to be their External Auditors for the next three-year period.

The PRA continued the dispensation of the audit requirement in respect of the public Solvency II reporting of smaller insurers, meaning that the exemption applies to Cornish Mutual for the year ended 30 September 2021. BDO will perform a review of the Technical Provisions, own Funds and other elements which feed into capital disclosures in the Financial Statements.

Business Continuity Planning (Disaster Recovery)

The Company has contingency plans to minimise the impact of events that might interrupt its capability to deliver business obligations. Annual Disaster Recovery, Business Continuity and Penetration tests are undertaken, whilst resilience is achieved through dual site capability, remote access, and security.

The Committee noted that the company made further improvements in systems resilience during the year. The Covid-19 pandemic has provided a robust test of the working from home capabilities and methodologies, and we have not experienced any service degradation as we continue to deploy these capabilities.

Material Risks and Future Risk Strategy

In the Strategic Report on page 4, we set out high-level strategic risks and uncertainties faced by the business. It is the RAC's role to monitor in detail the risks which the Board judges to be material to the Company. Specifically, these are:

- Unavailability or inadequacy of reinsurance
- Market (Investment) Risk
- Competitor behaviour
- Failure to attract & retain staff with appropriate skills, behaviours and performance
- Failure to observe legal and regulatory requirements for insurers
- Erosion of Capital and Solvency Margin
- Insurance Risk
- Business Model, over time, ceases to remain relevant for Members
- Business disruption through systems failure, cyber security breaches, natural disasters or unexpected events
- Adverse investment market conditions increase financial support required for closed defined benefit pension fund
- Volatility of the expense base
- Ongoing impact of the Covid-19 pandemic

The Board regularly examines the status of each of these risks, which are reviewed continuously by the Management Risk Committee and quarterly by the Risk and Audit Committee.

The Company places a strong emphasis on selecting individuals with the right cultural values and attitudes to Members during recruitment, whilst providing technical training and development that is recognised as outstanding. CII Chartered status has been earned, once again, during this financial period.

The RAC regularly advises the Board on capital and solvency matters in its regular reviews of these aspects in supporting the ORSA. This is underpinned by appropriate investment strategies deployed by the Investment and Capital Management Committee.

The Board has well-established policies for the acceptance and control of underwriting risk, whilst monitoring the reinsurance market to optimise its reinsurance programme. Reinsurance arrangements are reflected in the solvency capital requirements of the Company and the RAC examines reinsurance projections bi-annually and treats the availability of cost-effective reinsurance as one of the principal risks.

Directors are required to bring a wide range of diverse skills and experience to the Board. Whilst the company is relatively small and less complex than many insurers, most of its activities and risks are identical in nature, if not in scale. The requirement to plan for, attract, retain suitable Non-Executive Directors is a significant responsibility of the Remuneration and Nomination Committee.

The Company business model is founded on a strong product and service-based proposition for Members and our local, mutual focus generates high levels of trust based on personal service and reliable advice.

The Company is regulated by the PRA and FCA, which oversees compliance with prudential and conduct standards. As a Member of the AFM, the Company complies with the AFM Governance Code for Financial Mutuals. Board policy is to observe all legal and regulatory requirements absolutely.

The Committee has been kept up to date on the discussions taking place to remove the financial liabilities of the legacy pension arrangements which impact our Solvency II calculations and capital management needs.

RAC Assurance Statement

The RAC is able to give assurance to the Board and Members that the controls and risk management processes are robust and suitable to support the ongoing business and stated strategy of pursuing organic expansion in the South West Counties farming communities, whilst delivering continuous improvement in the high level of personal service and prompt claims settlement to all Members. The opinion of the Risk and Audit Committee is informed by the Committee's consideration of the reports from Internal Audits and the Validation and Support Team's programme, from Executive management who have responsibility for the development and management of the internal control framework and by the External Auditors' examination of the Annual Report and Financial Statements and accompanying management letter.

Richard Lane

Chairman, Risk and Audit Committee

14 December 2021

Responsibilities of the Committee

The Investment and Capital Management Committee (ICMC) is responsible for overseeing the management and investment of the Company's and Members' Funds and ensuring these meet our objectives. If our objectives are not met, then the ICMC is responsible for appointing new investment managers able to deliver to our expectations.

Membership

The composition of the ICMC, shown on page 34, remained unchanged from the previous period and we continued to benefit from the attendance of the Executive, alongside NED Members of the Committee. Charles Pears has chaired the Committee since 2018.

Investment Objectives

We have three primary objectives for our investments:

1. Support our business strategy of delivering profitable growth. This means we target a positive real return (a real return is one more than inflation) after charges from the investments we make while minimising the risk of losses.

2. Be sufficiently liquid both in the short-term and in the long-term to meet our business requirements for such things as paying claims and supporting business strategy.

3. Be consistent with the Board's appetite for economic risk and the Company's capacity to take these risks, as determined by our Solvency Capital Requirement (SCR).

We currently achieve our objectives through holding a small range of Funds managed by a specialist investment manager. These Funds are:

- The Insight Broad Opportunities fund (IBOF), a dynamically managed fund able to invest across a broad range of asset classes including equities. This is the primary source of return and so risk.

- The BNY Mellon Absolute Return Bond fund (ARB), a dynamically managed fund able to invest across a broad range of fixed income asset classes. This is the secondary source of return and so risk.

- The Insight Liquidity Plus fund (ILF+), a highly diversified money market fund with a strong credit rating, which invests in slightly longer duration money market instruments. This is a low-risk fund intended to deliver a return slightly higher than cash deposits.

- The Insight Liquidity fund (ILF), a highly diversified money market fund with a strong credit rating but limited to very short duration money market instruments. This is a very low risk fund intended as a substitute for cash deposits.

Our holdings in these Funds as of 30 September 2021 is shown on page 86 of the Financial Statements.

Review of Activity

The principal activity of the ICMC is overseeing the allocation between the four Funds listed above to strike the right balance between risk, return, liquidity, and the resultant capital requirements.

The Committee's activities during this year were as follows:

Delivering Profitable Growth

The year finally started to see some progress in managing the Covid-19 pandemic as vaccination programmes commenced with a resultant increase in business optimism. While the extent to which vaccination will enable a full return to usual economic and social activity is still to be tested, markets signaled a strong optimism in this regard. This is particularly noticeable in developed economies such as the US, UK and Europe where vaccination rates are high, and we have seen a sequential loosening of government restrictions.

Equity markets may not be at pre-Covid levels, but the extent and speed of the rebound has been remarkable. Similar trends are evident in the credit markets and risk assets generally have seen strong returns. There remain though many sources of uncertainty and so nervousness. Other stresses in the global financial system include supply chain issues, increased energy prices, and ongoing geo-political tensions. The outlook for inflation is also far from clear, with commentators split on whether we are experiencing a short-term inflationary pressure, which will quickly subside, or much more long-term underlying pressures. Domestically, we continue to see the impact of Brexit with tensions around the NI protocol, labour shortages within certain sectors, and a sense of uncertainty around key trading relationships and the potential impact on the agriculture sector and the UK economy more generally. Add Climate Change into the mix and the outlook remains highly uncertain, with potential for significant volatility within certain sectors.

Cornish Mutual continued to see the benefit of this resurgent optimism with positive performance for our Members' Funds. Our investment manager had tactically increased risk exposure and we saw the benefit of this, particularly in terms of the equity exposure. Our largest holding, the IBOF fund, saw annual growth of 10%. Our other holdings being fixed income Funds were less able to participate in this market upturn, but still were able to extract a positive return from the rebound in credit markets. ARB delivered a 12 month return of 2.1%, and the much more liquid Funds (ILF and ILF + used primarily as a substitute for cash) both exceeded their cash benchmarks.

We will continue to carefully monitor the mix of Funds held and to interrogate our investment manager on the sources of both risk and return. We will remain mindful of the potentially inflationary pressure alongside a continuation of very low interest rates, making the optimisation of our investment risk critical to delivering a positive real return.

Review of Investment Strategy

During the year we reviewed the performance of our investment Funds relative to both the targets for these Funds but also to relevant peer comparators. We engaged with a number of investment managers to ensure we continue to understand the different approaches that can be taken to achieve a positive real return and the associated risks and capital implications for these different approaches. This exercise has helped inform our understanding of the levels of risk inherent in our current portfolios and also the strengths and weaknesses of our current approach. As part of this exercise, we gained a greater insight into the more complex derivative strategies that are often employed and the resultant risks arising from these.

Review of Regulatory Capital Requirements

The ICMC has been working to strike the right balance between being prudent while not being so cautious that we cannot achieve our long-term objective of delivering positive real returns. This means balancing the capacity for investment risk in light of the increased insurance risk.

Historically, the SCR has been our primary indicator for the level of risk the business is taking overall. Throughout the period we saw the SCR worsen as our business transitioned to the new stop loss reinsurance arrangement. As at the end of Financial Year 2020, we had an SCR of £13.0m and a ratio of 189% (calculated as Solvency II Members' Funds divided by our SCR), while at 30 September 2021 our SCR had increased to £19.1m with a ratio of 163%. This was expected as the Standard Formula by which our SCR is calculated does not allow full account to be taken of the protection provided by our reinsurance programme, and we have also made additional investments into our portfolios arising from the unwinding of our previous quota share agreement.

The change in our SCR was further exacerbated by the greater levels of market risk taken by our investment manager as they navigated the Covid-19 crisis. In some cases, this had a direct impact such as an overall increased appetite for equity exposure. In others, the impact was indirect, such as a desire to use currency positions to capture global economic trends. While this makes sense from an investment perspective, currency exposure has a higher capital requirement under the SCR than the alternative of expressing these positions using government bonds. The ICMC spent significant time understanding the level of risk inherent in our portfolios and evaluating this through both the SCR but also through our own assessment of the level of economic risk being taken. This was helpful as we saw a strong divergence between the level of risk as expressed by the SCR and the level of risk as expressed by economic factors or statistical analysis of the performance of our holdings.

While we continued to treat the SCR as our primary measure, we have developed a suite of tools to ensure that we fully understand where this may be excessively prudent in the calculation of risk and so understand when to moderate our response. We also gained comfort that under all of the different metrics used we remain well-capitalised relative to the business we insure and our business plans to achieve sustainable and profitable growth.

Establishing a Programme for the Investment of Funds arising from Reinsurance Changes.

The ICMC oversaw the continued investment of the additional Funds arising from the changes to our reinsurance programme. This saw the phased increase in our Funds as our business moved through the period from the historic quota share arrangement to the stop loss arrangement where we retain a higher proportion of insurance risk and the associated Funds held to meet these obligations. We previously expressed a desire to strike the right balance between insurance risk and investment risk with the resultant regulatory capital requirements. Through the period the increased equity exposure within the underlying Funds we hold, along with the increased size of our overall investment portfolio, saw capital considerations come to the fore. On a number of occasions, the Committee had to exercise judgement in this area and undertook further analysis to build confidence in our approach. This transition is now largely completed and should facilitate a more stable period for our regulatory capital.

Managing the Financial Risks Arising from Climate Change

In the previous financial year, we raised the increased prominence of Environmental, Social and Governance (ESG) considerations as part of the management of our investments, with a particular focus on Climate Change. This year built strongly on this theme with a comprehensive review of our investment holdings and the overall philosophy, tools and processes used by our investment manager to manage these risks. We considered each of the Funds we hold and the extent to which ESG considerations are integrated in the asset selection. As a result, we concluded that our current approach meets, and in some areas exceeds, the minimum regulatory expectations. In particular, we were pleased to find the increased prominence of ESG-screened equity indices being used to achieve equity exposure and a broad range of ESG factors being used to inform the selection of fixed income holdings. We had some reservations about less liquid infrastructure holdings (linked to the aviation sector) within the IBOF fund and undertook to monitor these. Ultimately, these holdings were divested so alleviating this concern. We will continue to engage with our investment manager in this arena.

Additionally, we have commenced an exercise to identify what values we may wish to embed over and above the regulatory minimum. This is where our portfolios have historically been constructed solely according to investment criteria (such as risk, return and liquidity) without explicit non-financial objectives. We found broad consensus that as an insurance company our foremost obligation to Members is to deliver attractive investment outcomes. This validates our existing approach for the bulk of our investment assets. There is though appetite to allocate a portion of our Funds to securing positive environmental and social benefits for our Members, over and above the traditional investment criteria. We will further explore options in this area with a desire to limit activity to the regions we operate in and to achieve clearly quantifiable outcomes that our colleagues and Members can relate to.

Conclusion

The steps taken during the period have seen ongoing development of our internal capabilities in understanding and monitoring economic risk alongside the obligatory regulatory capital requirements. This gives us confidence that we are well placed to strike the right balance in making the investment choices needed to achieve positive real returns while carefully managing the overall risk assumed alongside our regulatory capital requirements. There is significant enthusiasm to finding the opportunities to deliver a positive impact through the allocation of a proportion of our Funds to ESG initiatives within our South West region.

Charles Pears

14 December 2021

Responsibilities of the Committee

The Committee's role is to ensure the Board has the skills and experience it needs to meet the challenges facing the Company, to plan for effective future Board succession and to ensure our remuneration policy supports our strategy and encourages sustained performance. We also consider other people issues on an ad hoc basis. We use formal, rigorous and transparent processes and we welcome feedback from Cornish Mutual Members.

Membership

The Committee is comprised solely of Non-Executive Directors (NEDs), elected annually by the Board following the company's AGM; other Board Members and employees also attended meetings during the year. All Directors of the Board may be invited to attend meetings of the Committee but only those appointed as Members may vote on Committee reserved matters. The Committee meets without Executive attendees as and when the Committee Chair considers it appropriate to do so. Neither the Board Chair nor the Managing Director has any input or vote on their own remuneration or any connected matter. Sue Turner has chaired the Committee since 2019.

Review of Activity

As well as considering its regular business during the Committee's three meetings this year, the impact of Covid-19 on the Company's people has been an important focus. As in the previous year we did not use the Government's Coronavirus job retention scheme. The Committee's key activities this year were:

- Recommendations for Board remuneration
- Review of NED time commitment and involvement with the company
- Establishing the framework for future external benchmarking of Board remuneration
- Succession planning to further our plans to improve Board diversity
- Review of Board effectiveness building on the implementation of Board and Committee behaviours and self-assessment
- Review of relevant issues on the risk register, ensuring that the risks are mitigated
- Updating of maternity and paternity leave policies
- Review of the Committee's terms of reference.

Remuneration

Our recommendations for Board remuneration this year needed to take into account many factors including: remuneration trends in comparable businesses; the company's performance; the multiple issues impacting on our Members; our 2020 Board remuneration freeze; the potential for increased Executive mobility that has resulted from the rise in working from home and hybrid working.

Our Board remuneration benchmarking this year examined the levels of remuneration paid to Executive and NEDs in comparable businesses, including Financial Service mutuals. We found a wide range of rewards received by other Boards leading to our recommendation to the Board that in 2022 we should conduct a thorough external benchmarking exercise to inform decisions and provide a framework for decision-making in subsequent years. This will incorporate advice on the regulators' changing requirements and developing trends in remuneration.

We continue to support our Member-focused culture through not incentivising any staff through commissions, long term incentive payments or other practices that could incentivise behaviours inconsistent with the Company's values. Consequently, we remain in compliance with the Prudential Regulation Authority's detailed approach to be taken regarding variable remuneration under the Solvency II regime.

In recommending Board remuneration for the year ahead, the Committee was very mindful of the economic and other pressures on many of our Members. We recognised that our Executives were underpaid compared to the market and had done an exceptional job to bring the company successfully through the pandemic to date. In the current tight labour market, which shows no signs of loosening in the year ahead, working from home and hybrid working arrangements have opened up new opportunities to talented people like our Executives. We have already seen key team Members leaving to take up new opportunities offered through remote working; ensuring remuneration is appropriate is an important mitigation against the risk of losing further key staff. When Peter Beaumont was appointed Managing Director it was agreed that his salary would be reviewed in the light of his performance. Bearing in mind the 0% increase across the Board last year, we decided to recognise and reward the performance of all three Executives with pay increases this year, moving them to salaries comparable to the external benchmarks. It is worth noting that the Managing Director's pay is still less than his predecessor, despite the considerable positive impact he has had and the difficult times through which he has ably led the business.

NED remuneration had previously remained unchanged for three years, slipping behind some of our peers. Our review of NED time commitment to the company found that our NEDs had given significantly more time to the business this year. With increases in NEDs' responsibilities, we recommended an increment to NED remuneration. Full details of the remuneration paid to all Directors can be found in the Board Report on Corporate Governance on page 35.

Nominations

There have been no Board vacancies this year, so the Committee has focused on planning for the future. The Board's intention is to move to a smaller Board, while still ensuring that we have the right balance of skills and experience.

Using the Board skills matrix we identified that we want to increase Board expertise on issues that affect the future of farming, such as technological innovations and climate change. Through the company's Future Farming programme and our broader links, we are keen to seek out talented people from all backgrounds who could bring new thinking to our Board. Rapid advances in technology and data mean that our NEDs are required to challenge and support the Executive in new areas providing exciting opportunities for future NEDs to join us. If this resonates with anyone reading this report do get in touch with us; we would love to hear from you and ensure you are notified next time we are recruiting NEDs.

Diversity, equity and inclusion

As the Company has less than 250 employees, it is not subject to compulsory reporting on gender pay. Nevertheless, we continue to monitor and report on gender pay. The Committee was pleased to see the latest gender pay figures for Cornish Mutual showed the pay gap is almost nil in three out of four quartiles. The figures to 31 December 2020 show we have no gender pay gap at lower and middle pay levels. In the upper quartile, where 72% of roles are held by males and 28% by females, men earn 8% less on average than women. This difference arises due to some of our most senior roles being held by women.

We feel keenly our obligation to increase diversity when vacancies arise in the future, to reflect our communities better, including gender, ethnicity, age and socio-economic factors. We remain committed to stimulating more diversity and inclusivity across the business. In the coming year we will look in more depth at our workforce to understand wider diversity and social mobility issues. We are keen to consider how our practices, attitudes and behaviours can encourage a truly diverse workforce that reflects our communities and ensures parity of pay across the spectrum of diversity and equality issues.

Board and Committee effectiveness

During the year we have monitored the effectiveness of the new system for reviewing Board behaviours as part of our responsibility for overseeing the formal evaluation of Board and Committee performance. Whilst we have seen some progress this year as the new methods bed in, we know there is more work to be done. Next year we will examine the options for a cost effective and impactful external review of Board effectiveness.

Other people issues

Our regular and supplementary staff surveys have been important in monitoring the impact on our people as they continued to work from home for much of the year. We recognise that an element of remote working is desirable for many, but are now encouraging our office-based employees to return to working from our offices the majority of the time, as face-to-face interaction and peer learning are key parts of our culture.

Our 2020 staff survey identified that our maternity and paternity leave policies were a source of concern, so we have improved these policies to support new parents with added flexibility and better reflect our values.

For a business of our size, succession planning is challenging as we do not have unlimited opportunities for people to develop and progress skills. In key areas such as underwriting and IT, the Committee is pleased to note that team Members' skills continue to be developed and internal promotions are encouraged.

Sue Turner

14 December 2021

INDEPENDENT AUDITOR’S REPORT

Opinion on the financial statements

In our opinion, The Cornish Mutual Assurance Company Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2021 and of the Company's surplus 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.

We have audited the financial statements of The Cornish Mutual Assurance Company Limited ("the Company") for the year ended 30 September 2021 which comprise the statement of profit and loss, profit, the statement of comprehensive income, the statement of financial position, the statement of changes in Members' funds, statement of cash flows, and notes to the financial statements, 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 Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and Financial Reporting Standard 103 Insurance Contracts (United Kingdom Generally Accepted Accounting Practice).

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our opinion is consistent with the additional report to the audit committee.

Independence

Following the recommendation of the Audit Committee, we were appointed by the Members at the Annual General Meeting on 25 March 2021 to audit the financial statements for the year ending 30 September 2021. This is the first year of appointment.

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 FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to Company.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Review and challenge of the Company's current plans and budget forecasts with reference to Member renewal information, challenging growth assertions and checking that movements were in line with justifiable assumptions and movements; and
- Checked the basis of solvency projections for the next 12 months, considering whether an appropriate mechanism for calculating solvency had been applied.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overviews

Key audit matters	2021 Valuation of technical provisions
Materiality	Financial Statements as a whole £286,400 based on 1% of Net Assets

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Company and its environment, including the Company's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

All audit work was performed by the audit engagement team.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, 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. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Description of Key Audit Matter		Procedures performed to address this risk
Valuation of technical provisions for claims outstanding Notes 5 and 22	The financial statements include technical provisions for the estimated cost of settling claims associated with insurance contracts written by the company. Due to the uncertainty inherent in the estimation and calculation of these technical provisions we consider them to be a Key Audit Matter. The claims outstanding provision as at the year end of £22.7m includes an estimation of the outstanding cost of settling all claims that have been incurred before the year end date. This balance includes an estimate for claims that have been reported by 30 September 2021 as well provisions for those claims that have been incurred but not reported ('IBNR') and those that are still developing ('IBNER'). The valuation of the technical provisions is dependent on a number of assumptions and judgements including the number of claims that will ultimately be received and how much these claims will settle for.	In assessing the valuation of the technical provision, we performed the following procedures: • We used internal independent actuarial experts to consider the appropriateness of the methodology and assumptions underpinning the calculation of the provision and the accuracy of the calculation itself; • We have checked and agreed the independence and relevant expertise of our actuarial experts; • We have obtained and reviewed the actuarial reports prepared by the Company and used our actuarial expert to check that all relevant judgements and estimates in the Company's calculation have been considered and appropriately challenged. Meetings were held between management and our actuarial expert to challenge the assumptions and methodology used by management; • We have reviewed and assessed changes to the assumptions used in the technical provisions compared to previous years to check these are reasonable and in line with acceptable parameters based on our actuarial expert's assessment; • We have reconciled and agreed a sample of the source data used by management and provided to our actuarial expert to the underlying policy data to check that calculations are based on accurate information; • We have agreed all case estimates above our performance materiality level and a sample of other case estimates to supporting documentation to check that any adjustments were accounted for in the correct period; • We have recalculated the reinsurance recoveries to assess whether the reinsurers' share of large claims have been correctly recognised; and • We have reviewed the outturn of prior years' estimates against the previous year's position to assess the accuracy of previous estimates and the appropriateness of the methodology. Key observations: • Based on the procedures performed we consider the technical provisions liability recognised by the Company within its financial statements and the estimates, assumptions and methodology used to calculate this at 30 September 2021 to be reasonable.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

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

	Company financial statements
	2021 £000's
Materiality	286.4
Basis for determining materiality	1% of Net Assets
Rationale for the benchmark applied	Net assets is considered to be the most appropriate measure for a mutual insurer, reflecting the ability of the Company to pay claims and indemnify its Members. This represents the metric of primary interest to users of the financial statements.
Performance materiality	214.8
Basis for determining performance materiality	Performance materiality has been set at 75% of financial statement materiality, reflecting the low inherent risk associated with the aggregation of misstatements within the financial statements.

Reporting threshold

We agreed with the Audit Committee that we would report to them any misstatements in excess of £14,300 that we identified through the course of our audit, together with any qualitative matters that warrant reporting. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and financial statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	In our opinion, based on the work undertaken in the course of the audit: • the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.
Matters on which we are required to report by exception	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 by the Company, or returns adequate for our audit have not been received from branches not visited by us; or • the Company's 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.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 25, 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.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

- obtaining an understanding of the legal and regulatory frameworks that the Company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the group. We considered the significant laws and regulations to be the applicable accounting standards, Prudential Regulatory Authority ('PRA'), Financial Conduct Authority ('FCA'), Company Law and the Bribery Act 2010;
- the engagement team was deemed to collectively have the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations. We communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.
- agreement of the financial statement disclosures to underlying supporting documentation;
- assessed the susceptibility of the financial statement to material misstatement including fraud and identified the fraud risk areas to be the valuation of technical provisions (Refer to the Key Audit Matters section above) and management override of controls:
- In response to the risk of management override of controls, assessed the appropriateness of journal entries which met specific risk criteria by agreeing them to appropriate supporting documentation:
- enquiring of management, the audit committee and those charged with governance, including obtaining and reviewing supporting documentation, concerning the Company's policies and procedures relating to:

  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- review of minutes of board meetings throughout the period to assess if there are any indicators of fraud or non-compliance with laws and regulations; ; and
- review of correspondence with the Prudential Regulation Authority and Financial Conduct Authority.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

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.

Thomas Reed, Senior Statutory Auditor

For and on behalf of BDO LLP, Statutory Auditor

London, UK

December 2021

BDO LLP is a limited liability partnership registered in England and Wales (with the registered number OC305127)

FINANCIAL STATEMENTS

STATEMENT OF PROFIT AND LOSS FOR YEAR ENDED 30 SEPTEMBER 2021	2021	2020
	£	£
TECHNICAL ACCOUNT - GENERAL BUSINESS		
Gross premiums written	24,330,677	23,861,800
Outward reinsurance premiums	(2,694,541)	(2,472,938)
Written premiums, net of reinsurance	**21,636,136**	**21,388,862**
Change in gross provision for unearned premiums	(190,921)	17,797
Change in provision for unearned premiums, reinsurers share	105,222	(5,270,171)
Change in net provision for unearned premiums	**(85,699)**	**(5,252,374)**
Earned premiums, net of reinsurance	**21,550,437**	**16,136,488**
Other technical income	296,656	1,528,733
Total technical income	**21,847,093**	**17,665,221**
Gross claims paid	12,054,163	12,177,644
Reinsurers' share of claims paid	(1,700,896)	(4,513,068)
Claims paid net of reinsurance	**10,353,267**	**7,664,576**
Change in gross provision for claims	(989,394)	6,161,966
Change in reinsurers' share	1,494,589	(4,513,068)
Change in net provision for claims	**505,195**	**1,801,350**
Claims incurred net of reinsurance	**10,858,462**	**9,465,926**
Net operating expenses	5,893,953	5,817,159
Total technical charges	**16,752,415**	**15,283,085**
BALANCE ON THE TECHNICAL ACCOUNT	**5,094,678**	**2,382,136**

STATEMENT OF PROFIT AND LOSS FOR YEAR ENDED 30 SEPTEMBER 2021	2021	2020
	£	£
NON-TECHNICAL ACCOUNT		
Balance on the general business technical account	5,094,678	2,382,136
Investment Income	2,238,174	(8,525)
Investment expenses and charges	(149,118)	(122,989)
Other charges	(1,043,592)	(1,051,947)
PROFIT /(LOSS) ON ORDINARY ACTIVITIES BEFORE TAX	6,140,142	1,198,675
Tax credit on profit on ordinary activities	0	0
PROFIT /(LOSS) FOR THE FINANCIAL YEAR AFTER TAX	6,140,142	1,198,675

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 SEPTEMBER 2021	2021	2020
	£	£
PROFIT FOR THE FINANCIAL YEAR AFTER TAX	6,140,142	1,198,675
Revaluation of property	0	(70,000)
Remeasurement of net defined benefit pension scheme	107,000	15,000
Deferred tax on actuarial change in the pension scheme	0	0
OTHER COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX	107,000	(55,000)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	6,247,142	1,143,675
ATTRIBUTABLE TO THE OWNERS OF THE COMPANY	6,247,142	1,143,675

The accounting policies and notes on pages 66-92 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2021	2021	2020
	£	£
ASSETS		
INTANGIBLE ASSETS		
Other intangible assets	84,649	58,045
	84,649	58,045
INVESTMENTS		
Land and buildings	2,200,000	2,200,000
Other financial investments	42,234,172	34,967,440
Investment in subsidiary undertaking	0	0
	44,434,172	37,167,440
REINSURERS SHARE OF TECHNICAL PROVISIONS		
Provision for unearned premium	1,395,474	1,290,252
Claims outstanding	10,948,585	12,443,174
	12,344,059	13,733,426
DEBTORS		
Debtors arising out of direct insurance operations - policyholders	5,666,689	5,738,326
Debtors arising out of reinsurance operations	196,750	964,988
Other debtors	10,706	4,052
	5,874,145	6,707,366
OTHER ASSETS		
Tangible assets	315,815	370,966
Stock	3,830	6,173
Cash at bank and in hand	2,111,412	1,500,995
	2,431,057	1,878,134
PREPAYMENTS AND ACCRUED INCOME		
Prepayments and accrued income	396,531	1,578,250
TOTAL ASSETS	65,564,613	61,122,661

STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2021	2021	2020
	£	£
LIABILITIES		
CAPITAL AND RESERVES		
Members' funds	28,652,484	22,405,342
GROSS TECHNICAL PROVISIONS		
Provision for unearned premium	12,091,409	11,900,488
Claims outstanding	22,651,162	23,640,556
	34,742,571	35,541,044
PROVISION FOR LIABILITIES AND CHARGES		
Provision for taxation	0	0
Provision for pensions	0	0
	0	0
CREDITORS		
Arising out of reinsurance operations	745,457	953,650
Other creditor including taxation and social security	1,076,861	1,833,068
	1,822,318	2,786,718
ACCRUALS AND DEFERRED INCOME		
Accruals and deferred income	347,240	389,557
TOTAL LIABILITIES	65,564,613	61,122,661

The accounting policies and notes on pages 66-92 form an integral part of these financial statements.

Approved by the Board of Directors on 14 December 2021.

Jeremy Oatey
Director

Clare Green
Director

P S Beaumont
Managing Director

STATEMENT OF CHANGES IN MEMBERS' FUNDS FOR THE YEAR ENDED 30 SEPTEMBER 2021	Profit and loss £	Total £
Balance as at 1 October 2019	**21,261,667**	**21,261,667**
Profit for the financial year after tax	1,198,675	1,198,675
Other comprehensive income for the year	(55,000)	(55,000)
Total comprehensive income for the year	**1,143,675**	**1,143,675**
Balance as at 30 September 2020	**22,405,342**	**22,405,342**
Balance as at 1 October 2020	**22,405,342**	**22,405,342**
Profit for the financial year after tax	6,140,142	6,140,142
Other comprehensive income for the year	107,000	107,000
Total comprehensive income for the year	**6,247,142**	**6,247,142**
Balance as at 30 September 2021	**28,652,484**	**28,652,484**

	2021	2020
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 SEPTEMBER 2021	£	£
NET CASH GENERATED FROM OPERATING ACTIVITIES	5,996,695	6,108,851
CASH FLOW FROM INVESTING ACTIVITIES		
Interest Received	306	570
Rental income	122,016	121,394
Net cash invested in financial investments	(5,300,000)	(5,700,000)
Payments to acquire tangible fixed assets	(133,588)	(161,857)
Payments to acquire intangible assets	(75,198)	(29,619)
Proceeds from sale of land	0	75,000
	(5,386,464)	(5,694,512)
NET INCREASE IN CASH AT BANK AND IN HAND	610,417	414,339
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	1,500,995	1,086,656
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	2,111,412	1,500,995

RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES	2021 £	2020 £
Transfer from Technical Account	5,094,678	2,382,136
Other Charges	(1,043,592)	(1,051,947)
OPERATING PROFIT /(LOSS)	4,051,086	1,330,189
(Increase)/ decrease in outstanding premiums	71,634	44,189
Increase in debtors and accrued interest	1,181,719	(814,120)
Decrease in claims outstanding	505,187	1,801,350
(Decrease)/Increase in reinsurance creditors	(208,193)	(2,860,116)
Increase in reinsurance debtors	768,238	1,543,442
Decrease / (Increase) in stock	2,358	(858)
Increase in other creditors	(805,180)	(425,780)
Increase in provision for unearned premium	85,699	5,252,380
Depreciation	188,508	201,513
Amortisation	48,592	21,662
Loss on disposal of fixed assets	233	0
Adjustment for fair value revaluation	0	0
Adjustment for pension funding	107,000	15,000
NET CASH GENERATED FROM/ (USED IN) OPERATING ACTIVITIES	5,996,881	6,108,851

As noted in the Strategic Report on page 18, between the end of the Financial Year and signing our Annual Report, the Pension Trustees entered into a buy-in transaction of the defined benefit Cornish Mutual Pension Scheme. The intention is for the Scheme to ultimately move to buy-out during the next financial period, which will be reflected in next year's Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Cornish Mutual Assurance Company Limited ('the Company') transacts general insurance business in the UK. Cornish Mutual Assurance Company Limited is a mutual incorporated in England and Wales. The Company is limited by guarantee and is controlled by the Members who are also insured policy holders.

The registered office is CMA House, Newham Road, Truro, Cornwall, TR1 2SU.

The Company financial statements are presented in pound sterling.

2. STATEMENT OF COMPLIANCE

The financial statements of the Company have been prepared in compliance with the United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard Applicable in the United Kingdom and the Republic of Ireland' ('FRS 102'), Financial Reporting Standards 103, 'Insurance Contracts' (FRS 103) and the Companies Act 2006.

3. ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

Basis of Preparation

The preparation of financial statements in conformity with FRS 102 and FRS 103 required critical accounting estimates. It also requires Management to exercise its judgement in the process of applying the Company accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

Going Concern

Having assessed the principal risks facing the Company, the Directors considered it appropriate to adopt the going concern basis of accounting in the preparation of the financial statements.

The key matters considered by the Directors in making this assessment are disclosed on page 21.

Insurance Contracts

The Company issues contracts that transfer insurance risk or financial risk or both.

Insurance contracts are those contracts that transfer significant insurance risk. The results are determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

a) Premiums

All premiums included in the profit and loss account relate to continuing operations. Written premiums comprise the total premiums receivable for the whole period of cover provided by contracts incepting during the financial year, together with adjustments arising in the financial year to such premiums receivable in respect of business written in previous financial years. The risks of all gross premiums written were located in the United Kingdom. All premiums resulted from contracts of insurance concluded in the United Kingdom.

Written premiums exclude insurance premium tax. The amount of this tax due by the Company which has not been paid over to HM Revenue and Customs as at the year-end has been included in the balance sheet as a liability under the heading 'Other creditors including taxation and social security'.

Outward reinsurance premiums are accounted for in the same accounting period as the related insurance premium income.

b) Unearned premiums

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis.

c) Acquisition costs

Acquisition costs are expensed in the year that they are incurred, as the Directors deem that any deferral would not materially affect the results for the year.

d) Claims incurred

Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any adjustments to claims from previous years.

e) Claims provisions and related reinsurance recoveries

Claims outstanding represent the ultimate cost of settling all claims (including settlement costs) arising from events which have occurred up to the balance sheet date, including provision for claims incurred but not yet reported, less any amounts paid in respect of those claims. The claims provision is based on the initial assessment by the claims manager of individual claims together with internally generated statistics on ultimate claims cost experience. A provision for claims incurred but not reported at 30 September is included and this is representative of past history. While the Directors believe that the provision for claims is fairly stated, subsequent information and events may show that the ultimate liability is less than or in excess of the amounts provided. Further commentary in this regard is provided in note 5 to the accounts.

Provisions are calculated gross of any reinsurance recoveries.

f) Reinsurance

Contracts entered into by the Company with reinsurers, under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts.

The amounts recoverable from reinsurers are estimated based upon the gross provision for claims outstanding, having due regard to collectability. Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the reinsurance arrangements over time. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the profit and loss account as 'Outward reinsurance premiums' when due.

Net Operating Expenses

The net operating expenses have been apportioned between the classes of business in proportion to the gross premium income.

Within our Non-Technical Account there is an amount for Other Charges. Expenses not relating directly to the insurance business, such as Directors' salaries and depreciation, are recognised within Other Charges.

Investment Income and Expenses

Investment income comprises interest and dividends received, together with realised investment gains and rental income. Realised gains and losses are calculated as the difference between sales proceeds and the original cost. Interest, rent and expenses are accounted for on an accruals basis.

Employee Benefits

The Company provides a range of benefits to its employees including paid holiday arrangements and defined contribution pension plans. The Company previously operated a defined benefit pension scheme which was closed to future accrual in 2010.

a) Short term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

b) Defined contribution pension plans

The Company operates a Personal Pension plan, which is a defined contribution pension scheme. The contributions to the scheme are recognised as an expense when they are due. Amounts not paid are shown within accruals in the balance sheet. The assets of the plan are held separately from the Company in independently administered Funds.

c) Defined benefit pension plan

The Company operates a defined benefit pension scheme which closed to future accrual on 31 May 2010. The pension deficit recognised in the balance sheet is the value of the scheme's assets less the present value of the scheme's liabilities at the reporting date. Where an FRS 102 surplus is calculated this will only be recognised to the extent that there is an unconditional right to the surplus.

A defined benefit pension plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including age, length of service and remuneration.

The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the reporting date, less the fair value of the plan assets at the reporting date.

The defined benefit obligation is measured using the projected unit credit method. The Company engages an independent actuary to calculate the obligation. The present value of the defined benefit obligation is determined by discounting the estimated future payments by reference to market yields at the reporting date on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

The fair value of the plan assets is measured in accordance with the FRS102 fair value hierarchy. This includes the use of appropriate valuation techniques.

For the defined benefit pension scheme, the amounts charged to the operating result are the current service cost and the gains or losses on settlement or curtailment. These costs are disclosed within staff costs. Past service costs are recognised immediately in profit and loss if the benefits have vested. If the benefits have not vested, then the past service cost is recognised over the period that the vesting occurs.

The net interest cost of the defined benefit pension scheme is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of planned assets.

Actuarial gains and losses are charged or credited to other comprehensive income in the period in which they arise. The attributable deferred taxation is shown separately in the statement of other comprehensive income.

Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income. Current or deferred taxation assets and liabilities are not discounted.

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Deferred tax is recognised where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Intangible Assets

Intangible assets are stated at cost less accumulated amortisation. Amortisation is calculated on a straight-line basis to allocate the depreciable amount of the assets to their residual values over the estimated useful life as follows:

Software	4 years

Costs associated with maintaining computer software are recognised as an expense when incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software so it is available for use;
- Management intends to complete the software and use or sell it;
- There is an ability to use or sell the software;
- It can be demonstrated how the software will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development for use or sale are available;
- The expenditure attributable to the software during its development can be reliably measured.

Land and Buildings

Land and buildings are measured at fair value. Full valuations are made by an independent, professionally qualified valuer on a regular basis.

Revaluation gains on owner occupied properties are taken to other comprehensive income except to the extent that those gains reverse a revaluation loss on the same property that was previously recognised as an expense.

Revaluation losses on owner occupied properties are taken to other comprehensive income to the extent they reverse a previously recognised revaluation gain with any further loss recognised in the non-technical account. The buildings element of owner occupied properties is depreciated, using the straight line method to allocate the depreciable amount to their residual values over their estimated useful life of 50 years. The Directors are of the opinion that the residual value is such that no depreciation charge arises.

The Company part occupies and part leases its principal building. The Directors are of the view that the valuation of these elements cannot be measured reliably due to different valuation bases and accordingly the value is not split between owner occupied and investment property.

Tangible Assets

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs.

Depreciation

Depreciation is provided on all tangible fixed assets, other than properties, at rates calculated to write off the cost, less estimated residual value, as follows:

Furniture and equipment	4 years

Leased Assets

At inception the Company assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Leases of assets that transfer substantially all of the risks and rewards incidental to ownership are classified as finance leases. Leases that do not transfer all of the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

The Company has no leases classified as finance leases through the reporting period.

Investments

Other financial investments are stated at current value in the balance sheet calculated as the mid-market value on the balance sheet date.

Financial Instruments

The Company has chosen to apply the recognition and measurement provisions of both Section 11 and Section 12 of FRS 102 in full in respect of financial instruments.

a) Financial assets

The Company classifies all of its financial assets as basic financial instruments under Section 11 FRS 102. Investments are valued at fair value through the profit and loss account and all other financial assets are carried at amortised cost.

1. Fair value through profit and loss

Investments carried at fair value through profit and loss are managed and their performance evaluated on a fair value basis, and information about their fair values is provided internally to key management personnel on a regular basis. The fair values of these financial instruments are based on quoted prices as at the balance sheet date.

2. Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand and deposits held at call with banks.

3. Other financial assets held at amortised cost

The other financial assets within the balance sheet are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. When these assets are recognised initially it is measured at the transaction price. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the annual impairment review of receivables.

A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset which have an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

b) Financial liabilities

Financial liabilities are recognised when a contractual commitment arises, and are recognised initially at fair value, net of transaction costs incurred. Financial liabilities are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account.

Creditors are recognised initially at fair value, net of directly attributable transaction costs. Creditors are subsequently measured at amortised cost.

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY

In preparing the financial statements, Management is required to make estimates and assumptions which affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates, together with past experience and expectations of future events that are believed to be reasonable under the circumstances.

Sources of estimation uncertainty

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing material misstatements to the carrying amounts of assets and liabilities within the next financial year are addressed below:

i) The ultimate liability arising from claims made under insurance contracts

At the balance sheet date, the Company has a gross provision in respect of claims made under insurance contracts of £22,651,162 (2020: £23,640,556).

Given the nature of operations of the Company, the estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims.

The provision at the balance sheet date comprises of a number of elements, which can be broadly summarised as follows:

Provisioning associated with claims that have been notified but not paid at the balance sheet date. The level of the provision has been set on the basis of the information that is currently available, including outstanding loss advice, experience of development of similar claims and case law.

Large claims, which in the context is defined as any claim over £50,000 in value, are considered separately on a case-by-case basis.

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of estimation uncertainty than the cost of settling claims already notified to the Company, where more information about the claim is available. Claims IBNR may not be apparent to the insured until many years after the event giving rise to the claim has happened.

Please see note 22 for disclosures relating to these provisions and note 5 for discussion of the related risks in this area.

ii) Defined benefit pension scheme

The Company has obligations to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, asset valuations and the discount rate on corporate bonds. Annually, the Company engages independent actuaries to calculate the obligation. See Note 27 for the disclosures relating to the defined benefit pension scheme. The carrying value of the net scheme liability is £nil (2020: £nil).

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

The Company issues contracts that transfer insurance or financial risk or both. The Company is also exposed to a range of financial risks through its financial assets, reinsurance assets and policyholder liabilities. This section summarises these risks and the way the Company manages them.

a) Insurance Risk

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

The principal risk faced by the Company is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims are greater than estimated. Insurance events are uncertain, and the actual number of events and claims is expected to vary year to year from the level established using estimation techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio.

A number of measures are in place to ensure this risk is managed prudently and conservatively; these include meetings of our Large Loss Committee and the Management Risk Committee, as well as the fortnightly Business meeting which reviews all statistics relating to the insurance side of the business.

The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. Our stop loss reinsurance arrangement, which commenced on 1 October 2019, ensures that our reinsurers are liable for any claims amounts that exceed 70% of premium on an overall basis. In addition, we also have excess of loss reinsurance in place to provide cover in the event of specific large claims. Whilst reinsurance comes at a cost, the net result is much less volatile than the gross insurance result. We also have an active claims handling team, who hold the necessary qualifications and have sufficient experience to handle our claims effectively.

The figures below represent the concentration of outstanding insurance liabilities according to the product category in which the underlying contract was written.

Claims provisions by product concentration	Gross	Reinsurance	Net
	£'000	£'000	£'000
2021			
Motor	10,256	2,566	7,690
Property	10,537	7,495	3,042
Commercial Packages	1,858	887	971
Total	**22,651**	**10,948**	**11,703**
2020			
Motor	9,480	2,792	6,688
Property	12,227	8,621	3,606
Commercial Packages	1,934	1,031	903
Total	**23,641**	**12,444**	**11,197**

Further insight into the product risk concentrations based upon claims incurred can be gained by examining the reported claims cost within the segmental analysis note 6.

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

The following tables compare the projected ultimate claims experience of the Company compared with previous projected ultimate claims for each policy year on a gross and net basis.

Claims incurred and outstanding gross							
Reporting year	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Estimate of ultimate claims costs:							
At end of reporting year	12,609	13,602	15,594	15,929	12,850	10,946	
One year later	11,504	12,780	15,265	15,049	12,923	-	
Two years later	11,261	12,410	21,991	15,434	-	-	
Three years later	11,436	12,527	22,031	-	-	-	
Four years later	11,218	12,448	-	-	-	-	
Five years later	11,153	-	-	-	-	-	
Current estimate of cumulative claims	**11,153**	**12,448**	**22,031**	**15,434**	**12,923**	**10,946**	
Cumulative payments to date	(10,770)	(10,915)	(13,996)	(11,205)	(10,494)	(5,863)	
Liability recognised in the balance sheet	**383**	**1,533**	**8,035**	**4,228**	**2,429**	**5,083**	**21,988**
Liability in respect of earlier years							663
Provision in balance sheet							**22,651**

Table includes rounding differences

Claims incurred and outstanding net							
Reporting year	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'001**	**£'002**	**£'000**
Estimate	Estimate of ultimate claims costs:						
At end of reporting year	7,463	7,590	8,047	8,347	10,106	10,946	
One year later	6,565	7,135	7,965	7,800	10,175	-	
Two years later	6,319	6,987	8,197	7,856	-	-	
Three years later	6,377	6,952	8,215	-	-	-	
Four years later	6,273	6,936	-	-	-	-	
Five years later	6,257	-	-	-	-	-	
Current estimate of cumulative claims	**6,257**	**6,936**	**8,215**	**7,856**	**10,175**	**10,946**	
Cumulative payments to date	(6,108)	(6,123)	(7,247)	(6,005)	(8,176)	(5,863)	
Liability recognised in the balance sheet	**149**	**812**	**969**	**1,851**	**2,000**	**5,083**	**10,864**
Liability in respect of earlier years							839
Provision in balance sheet							**11,703**

Table includes rounding differences

The key sensitivity in the insurance results is the ultimate accuracy of claims provisions.

In particular Cornish Mutual holds claims provisions in respect of a small number of larger claims. Larger claims, as included in the following table for financial year 2021 are those where the expected value is, or has ever been, in excess of £50,000.

	Large case estimate	Volatility estimate	Up gross	Down gross	Up net	Down net
	£'000		£'000	£'000	£'000	£'000
Motor	5,633	20%	1,127	(1,127)	816	(816)
Property	9,115	15%	1,367	(1,367)	615	(615)
Commercial Packages	1,560	15%	234	(234)	116	(116)
Total	16,308		2,728	(2,728)	1,547	(1,547)
Uncorrelated diversified			1,787	(1,787)	1,028	(1,028)

The comparison table for 2020 is as follows:

	Large case estimate	Volatility estimate	Up gross	Down gross	Up net	Down net
	£'000		£'000	£'000	£'000	£'000
Motor	4,926	20%	985	(985)	394	(394)
Property	10,580	15%	1,587	(1,587)	952	(952)
Commercial Packages	1,382	15%	207	(207)	124	(124)
Total	16,888		2,779	(2,779)	1,470	(1,470)
Uncorrelated diversified			1,879	(1,879)	1,038	(1,038)

Of the total claims provision of £22,651k (2020: £23,641k), large claims represent £16,308k (2020: 16,888k) or 72% (2020: 71%). This excludes any allowance for large claims incurred but not reported.

Changes in the value of a small number of these large claims have the greatest potential to materially affect the financial results of the Company as reported.

An exercise has been carried out to look at the variability of past large claims estimates as they settle, compared to the average value when they were open. The volatility measure is our assessment of that variability such that two thirds of the time, we would expect large claims estimates to settle within that percentage of the holding value of the estimate.

The three cohorts of claims have been assessed individually and we provide a total figure. Based on current year earned premium, these sensitivities amount to 11.3% gross loss ratio (2020: 11.6%) and 6.4% (2020: 6.9%) net of reinsurance. Because we assume the circumstances which would cause a large claim to develop to be independent of all other claims, we do not expect all the individual cohorts to develop in the same direction. The diversified figure at the bottom of the table reflects this with a 4.8% (2020: 4.7%) effect on gross loss ratios and 4.8% (2020: 7.9%) on net loss ratio.

Since we do not know which claims might develop, we cannot say which elements of the reinsurance program would respond. In arriving at the net figure, we have assumed that the quota share will respond for those claims prior to financial year 2020 but have also assumed no protection from non-proportional reinsurance cover in respect of catastrophe or excess of loss.

The provisions as calculated and included in these accounts make some allowance for uncertainty. Alongside the best estimate for outstanding provisions for each class, an additional risk margin is added to arrive at the overall liability.

The table above presents the sensitivity of the value of the most uncertain claims liabilities in the accounts to potential movements in the assumptions applied within the technical provisions. The volatility estimate represents the uncertainty inherent in each cohort of large claims derived by looking at historical development of established claims. A sensitivity for each cohort is calculated as well as a diversified total. The diversified figure reflects our view that the volatility arises as a result of uncertainty in relation to particular claims circumstances resulting in cohorts developing independently of each other.

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

In arriving at the total claims provisions, allowance is made for an adverse development of the large claims included in the table above. As discussed, there is uncertainty as to what amount should be allowed for and what the impact of reinsurance should be. For the purposes of calculating the provisions within the accounts, the Directors have taken a view on these variables and made an estimate.

Uncertainty is inherent in insurance accounts for low frequency events in particular, and this is the focus of reinsurance cover.

Whilst individual accident years may be impacted, it is the effect on the overall level of provisions which is reflected in the result of the Company.

While there are sensitivities within other aspects of the claim's provisions, they are less material than those for the large claims. Allowance is made in the overall provision for adverse development.

b) Financial Risk

The Company is exposed to a range of financial risks. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies and investment contracts as they fall due. The most significant components of this financial risk are market risk, credit risk, and liquidity risk.

Market Risk

The market risk Cornish Mutual faces is that an adverse movement in the value of assets, such as interest rates or equity prices, is not matched by a correspondent movement in the value of liabilities. Our investment policy ensures that we have a suitable balance of assets and testing of the impact of particular events on these assets, such as failure of investments and equity downturns, is a critical part of our Solvency II work, in particular the calculation of the SCR.

Credit Risk

Given our reliance on reinsurance partners, credit risk is significant for the Company. Credit risk arises from the risk of loss if another party fails to perform its obligations or fails to perform in a timely or appropriate fashion. As well as our reinsurers, we also have exposure from banks, contractors, our investments and our Members. These are significant controls in place to ensure that the risk is minimised:

Contractually, we pay our quota share reinsurer quarterly in arrears, with the claims being paid out of the premiums which we collect.

Our reinsurers' Standard and Poor's and AM Best ratings are monitored, and their financial strength is reviewed annually. They must have a security rating of at least an A-.

Liquidity Risk

The liquidity risk is the possibility that the business may be unable to meet its obligations as they fall due as a consequence of having insufficient accessible Funds. The majority of the Company's financial assets can be converted into cash at short notice with no or relatively small liquidation costs. Our reinsurance arrangements and the significant liquid assets the business holds means that the liquidity risk is not a significant risk as far as Cornish Mutual is concerned.

The table below analyses the undiscounted cash flows of the Company's monetary liabilities into their relevant maturity groups based on the period remaining at the year end to their contractual maturities or expected settlement dates. At 30 September all investments can be realised at any time.

MATURITY PROFILES

September 2021	Carrying amount	Up to a year	1 to 2 years	2 to 5 years	Over 5 years
	£'000	£'000	£'000	£'000	£'000
Outstanding claims net	11,703	4,915	3,394	1,638	1,755
Creditors	1,077	1,077	-	-	-

September 2020	Carrying amount	Up to a year	1 to 2 years	2 to 5 years	Over 5 years
	£'000	£'000	£'000	£'000	£'000
Outstanding claims net	11,197	4,703	3,247	1,568	1,680
Creditors	1,804	1,804	-	-	-

Table includes rounding differences

c) Operational Risk

In many respects operational risks are the main risks faced by Cornish Mutual. Operational risks relate to the risk of loss resulting from inadequate or failing internal processes, people and systems or from external events - for example, a disruption to the business by natural catastrophe. Given their potential impact, particular focus is placed on operational risks by the Board, with a variety of mechanisms in place to both mitigate their effect should they arise, and to prevent such risks arising in the first place.

d) Capital Management

The risk and capital management framework of the Company is central to its ability to continue delivering the benefits of mutuality into the future. The Company is currently well capitalised in respect of its size, limited complexity, business objectives and risk profile. There is no intention to call upon Funds from Members, and so the capital base must be sufficient to withstand the stresses to which the Company's insurance underwriting, business operations and investment portfolios are subject without recourse to raising further capital in order to maintain financial strength and allow new growth.

The Company is regulated by the Prudential Regulation Authority and is subject to insurance solvency regulations that specify the minimum level and type of capital that must be held in addition to insurance liabilities. The Solvency II regime has been effective since 1 January 2016 and establishes a new set of EU-wide capital requirements, risk management and disclosure standards. The Company is required to have an SCR which meets a 99.5% confidence level of the ability of the Company to meet its obligations over a 12 month time horizon. The Company calculates its SCR in accordance with the standard formula prescribed in the Solvency II regulations, as the assumptions underlying the standard formula are considered appropriate for the Company's risk profile. The Company has met the requirements of the Solvency II regime to date.

The amount of own Funds calculated on a Solvency II basis is £31.1m as at 30 September 2021 (2020: £24.7m).

6. SEGMENTAL INFORMATION

2021	Motor	Property	Accident & Health	Liability	Total
	£	£	£	£	£
Gross premiums written	13,043,782	7,946,771	149,033	3,191,090	24,330,677
Gross premiums earned	13,167,168	7,719,538	146,089	3,106,963	24,139,756
Reinsurance premium ceded	(1,552,504)	(541,581)	(7,926)	(592,530)	(2,694,541)
Gross claims incurred	(9,416,216)	(1,250,189)	(66,155)	(332,208)	(11,064,769)
Reinsurance claims recoverable	(32,683)	169,406	0	69,583	206,307
Operating expenses	3,159,774	1,925,055	36,102	773,021	5,893,953

2020	Motor	Property	Accident & Health	Liability	Total
	£	£	£	£	£
Gross premiums written	13,062,294	7,585,846	143,070	3,070,590	23,861,800
Gross premiums earned	13,153,133	7,523,248	139,419	3,063,797	23,879,597
Reinsurance premium ceded	(1,483,794)	(511,912)	(7,165)	(470,069)	(2,472,938)
Gross claims incurred	(5,684,859)	(9,354,281)	(99,015)	(3,201,455)	(18,339,610)
Reinsurance claims recoverable	705,791	5,903,176	0	2,264,717	8,873,684
Operating expenses	3,184,397	1,849,319	34,878	748,565	5,817,159

Operating expenses include administrative expenses and other charges.

7. EARNED PREMIUMS NET OF REINSURANCE

	Gross	Reinsurance	Net
2021	£	£	£
Premiums receivable	**24,330,677**	**2,694,541**	**21,636,136**
Unearned premiums carried forward	12,091,409	1,395,475	10,695,934
Unearned premiums brought forward	(11,900,488)	(1,290,252)	(10,610,236)
Decrease	**(190,921)**	**(105,223)**	**(85,698)**
Premiums earned	**24,139,756**	**2,589,318**	**21,550,437**

2020	£	£	£
Premiums receivable	**23,861,800**	**2,472,938**	**21,388,862**
Unearned premiums carried forward	11,900,488	1,290,252	10,610,236
Unearned premiums brought forward	(11,918,285)	(6,560,423)	(5,357,862)
Decrease	**17,797**	**5,270,171**	**(5,252,374)**
Premiums earned	**23,879,597**	**7,743,109**	**16,136,488**

Table includes rounding differences

8. CLAIMS INCURRED NET OF REINSURANCE

	Gross	Reinsurance	Net
2021	£	£	£
Claims paid	12,054,163	1,700,896	10,353,267
Outstanding claims carried forward	22,651,161	10,948,584	11,702,577
Outstanding claims brought forward	(23,640,556)	(12,443,174)	(11,197,382)
Increased / (Decrease)	(989,395)	(1,494,590)	505,195
Claims incurred	11,064,768	206,306	10,858,462

2020	£	£	£
Claims paid	12,177,644	4,513,068	7,664,576
Outstanding claims carried forward	23,640,556	12,443,174	11,197,382
Outstanding claims brought forward	(17,478,588)	(8,082,556)	(9,396,032)
Increased / (Decrease)	6,161,968	4,360,618	1,801,350
Claims incurred	18,339,612	8,873,686	9,465,926

9. MOVEMENT IN PRIOR YEAR'S PROVISION FOR CLAIMS OUTSTANDING

There was a deterioration in run off of £119k gross during the year in respect of the development of opening claims provisions of £17,040k from previous years (2020: £5,492k deterioration in experience on £17,479k). After reinsurers' share, run-off developed favourably by £180k (2020: £639k).

10. OTHER TECHNICAL INCOME

	2021	2020
	£	£
Instalment scheme administration charge	210,623	292,216
Commission	81,453	1,236,517
	292,076	1,528,733

11. STAFF COSTS

	2021	2020
	£	£
Wages and salaries	3,477,759	3,489,452
Social security costs	375,740	378,875
Other pension costs	402,259	313,813
	4,255,758	4,182,140

The average number of employees, including Directors, during the year was comprised as follows:

	2021	2020
Management and Directors	9	9
Underwriting and claims	99	98
	108	107

Pension Costs

The Company contributes to three defined contribution pension schemes in respect of some employees. The schemes and their assets are held by independent managers. In the year ended 30 September 2021, the Company made contributions to the schemes of £205,259 (2020: £208,013). During the year, the Company also made contributions to its Defined Benefit scheme of £90,000 (2020: £90,000).

12. DIRECTORS' REMUNERATION

	2021	2020
	£	£
Directors emoluments (including benefits in kind)	551,443	561,937
National Insurance	65,139	65,346
Other pension costs	44,100	43,947
	660,683	671,230

Number of Directors accruing benefits under defined contribution schemes	3	4
Number of Directors accruing benefits under defined benefit plans	nil	nil

Detailed amounts paid to Directors including the amount paid to the highest paid Director are disclosed within the Report on Corporate Governance on page 35.

13. KEY MANAGEMENT COMPENSATION

	2021	2020
	£	£
Management and Directors	632,520	646,954

Key management includes the Executive Directors and Members of Senior Management.

14. INVESTMENT (EXPENSE)/INCOME

	2021	2020
	£	£
Income from Land & Buildings	122,016	121,394
Income from listed investments	139	5,648
Income from other investments	309	596
Dividend from subsidiary	0	0
	122,463	127,638
Gains on sale of Land and Buildings	0	75,000
Less accumulated unrealised gains from prior years	0	0
Profit on disposed investments	**0**	**75,000**
Unrealised (loss)/gains on retained investments	**2,115,711**	**(211,164)**
Total investment (losses)/gains	**2,115,711**	**(136,164)**
Total investment (expense)/income	**2,238,174**	**(8,526)**

Table includes rounding differences

15. AUDITORS' REMUNERATION

Audit fees including VAT amounted to £108,599 (2020: £116,472). No fees were paid, in the current or prior year, in respect of any other services.

16. INVESTMENT EXPENSES AND CHARGES

	2021	2020
	£	£
Investment management expenses	149,118	122,989

Investment management expenses for collective Funds are charged to the fund and the price of the investment reflects the cost of these charges. An estimate of the fees charged, based upon the fee structure for each fund, has been reflected as an increase in the performance of the fund and a management expense.

17. OTHER CHARGES

	2021	2020
	£	£
Directors' remuneration (see note 12)	616,582	627,283
Company Secretary's remuneration	36,977	41,071
Auditors' remuneration (see note 15)	108,599	116,472
Directors' contribution to staff pension scheme	44,100	43,947
Depreciation	188,508	201,513
Amortisation	48,592	21,661
(Profit) / loss on disposal of fixed assets	234	0
	1,043,592	1,051,947

18. TAXATION

(a) Analysis of charge in period

	2021	2020
	£	£
Total current taxation	0	0

Deferred taxation		
Arising from origination and reversal of timing differences	0	(176,841)
Arising from changes in tax rates and laws	0	0
Total deferred taxation	0	(176,841)
Taxation on profit on ordinary activities	0	(176,841)

(b) Factors affecting tax charge for period

The tax assessed for the period is at the full rate of tax in the UK (19%). The differences are explained below:

	2021	2020
	£	£
Profit on ordinary activities before tax	6,140,142	1,198,675
Profit on ordinary activities multiplied by the full rate of tax in the UK, 19%	1,166,629	227,747
Effects of:		
Expenses not deductible in determining taxable profit	3,224,260	3,087,761
Timing differences between capital allowances and depreciation	(5,797)	(11,242)
Deferred tax not recognised	(259,659)	186,241
Income exempt from taxation	(4,521,225)	(3,379,760)
Tax charge arising from changes in pension funding	20,330	2,850
Tax increase/(decrease) on latent gains	360,945	(112,078)
Adjust closing deferred tax to average rate of 19%	0	0
Adjust opening deferred tax to average rate of 19%	14,517	(1,519)
Adjustment in respect of prior year	0	0
Total tax charge for period (see (a))	0	0

19. OTHER INTANGIBLE ASSETS

	Software Costs	Total
COST	£	£
At 1 October 2020	773,210	773,210
Additions	75,198	75,198
Disposal	(265,430)	(265,430)
At 30 September 2021	**582,978**	**582,978**

PROVISION FOR DEPRECIATION		0
At 1 October 2020	715,165	715,165
Charge for the year	48,592	48,592
Disposal	(265,428)	(265,428)
At 30 September 2021	**498,329**	**498,329**

NET BOOK VALUES		0
At 30 September 2021	**84,649**	**84,649**
At 30 September 2020	**58,045**	**58,045**

The amount included for Disposal comprises fully depreciated software that is no longer in use. There is no overall impact on the Statement of Financial Position and the Statement of Profit and Loss for the Year.

20. LAND AND BUILDINGS

	Freehold Property	Total
COST	**£**	**£**
At 1 October 2020	3,037,307	3,037,307
At 30 September 2021	**3,037,307**	**3,037,307**

PROVISION FOR DEPRECIATION	**£**	**£**
At 1 October 2020	837,307	837,307
Revaluation	0	0
At 30 September 2021	**837,307**	**837,307**

NET BOOK VALUES		
At 30 September 2021	**2,200,000**	**2,200,000**
At 30 September 2020	**2,200,000**	**2,200,000**

Land and Buildings includes a freehold property from which the Company trades. Two tenants have also occupied the premise since early 2020.

Due to requirements around social distancing arising from the Covid-19 pandemic, the Company increased its office space to occupy approximately two-thirds of the building during the summer of 2020 and still occupy this additional space.

The Company's property was valued as at 30 September 2020 by Vickery Holman, an independent qualified firm of chartered surveyors and valuers. The valuation was calculated with reference to market-based evidence for similar properties in the local area. The Directors have considered this valuation and agree this value is still appropriate as at 30 September 2021.

21. OTHER FINANCIAL INVESTMENTS

Other Financial Investments	Current Value		Historical Cost	
	2021	2020	2021	2020
	£	£	£	£
Collective investments	42,234,172	34,967,440	38,718,000	33,418,000
	42,234,172	34,967,440	38,718,000	33,418,000

The fair value of financial instruments traded in active markets is based on quoted bid prices at the balance sheet date. All instruments are Level 1; quoted in an active market.

	2021	2021
	Level 1	Total
	£	£
Collective investments	42,234,172	42,234,172
	42,234,172	42,234,172

	2020	2020
	Level 1	Total
	£	£
Collective investments	34,967,440	34,967,440
	34,967,440	34,967,440

22. CLAIMS OUTSTANDING

General Business	2021	2020
Gross amount	£	£
Brought forward at 1 October	23,640,555	17,478,589
Movement in provisions	(989,394)	6,161,966
Carried forward at 30 September	22,651,162	23,640,555

Reinsurance amount		
Brought forward at 1 October	12,443,173	8,082,557
Movement in provisions	(1,494,589)	4,360,616
Carried forward at 30 September	10,948,585	12,443,173

Net provisions		
Carried forward	11,702,577	11,197,382
Brought forward	11,197,382	9,396,032

23. OTHER DEBTORS

	2021	2020
	£	£
Other debtors	10,706	4,052

24. TANGIBLE ASSETS

	Furniture and Equipment	Total
COST	£	£
At 1 October 2020	1,573,457	1,573,457
Additions	133,588	133,588
Disposals	(390,783)	(390,783)
At 30 September 2021	1,316,262	1,316,262
PROVISION FOR DEPRECIATION		
At 1 October 2020	1,202,491	1,202,491
Charge for the year	188,508	188,508
On Disposals	(390,552)	(390,552)
At 30 September 2021	1,000,447	1,000,447
NET BOOK VALUES		
At 30 September 2021	315,815	315,815
At 30 September 2020	370,966	370,966

The amount included for Disposal comprises fully depreciated assets that were no longer in use and were scrapped for nil proceeds. This resulted in a £233 loss on disposal.

25. PROVISION FOR DEFERRED TAXATION

	2021	2020
	£	£
Unrealised gains on investments	561,596	65,868
Fixed asset timing differences	15,778	11,220
Tax losses carried forward	(577,374)	(77,088)
Net deferred tax liability	**0**	**0**

Net provision for liability at start of period	0	0
Deferred tax charge in profit and loss	0	0
Provision for liability at the end of the period	**0**	**0**

Deferred tax provisions have been calculated at the rate of 19% (2020: 19%), which is consistent with the substantively enacted tax rate at the balance sheet date which the Directors believe will be incurred by the Company in the future.

We have limited our deferred tax asset of £81,516 (2020: £300,144) to nil which relates to losses totalling £326,064 (2020: £1,579,705) as there is uncertainty around whether these losses will be relieved against future taxable profits.

26. FINANCIAL INSTRUMENTS

	2021	2020
	£	£
Financial assets held at fair value through the profit and loss	42,234,172	34,967,440
Debt instruments measured at amortised cost	7,788,807	7,243,373
	50,022,979	**42,210,813**

Financial assets that are equity instruments measured at fair value	**0**	**0**
Financial liabilities measured at amortised cost	**984,183**	**1,002,424**

Financial assets held at fair value through the profit and loss comprise of our investment portfolio. Debt instruments measured at amortised cost comprise of Insurance Debtors, Cash at Bank and Other Debtors.

Financial liabilities measured at amortised cost comprise of Trade Creditors and Other Creditors.

27. POST EMPLOYMENT BENEFITS

The Cornish Mutual Assurance Company Limited operates a defined benefit pension scheme (the Cornish Mutual Assurance Company Limited Staff Pension Scheme), the assets of which are held in a trustees bank account and invested with Legal and General. The scheme is closed to future accrual.

An actuarial valuation of the scheme was carried out as at 30 September 2021. The valuation of the scheme used the projected unit credit method and was carried out by Barnett Waddingham LLP who are professionally qualified actuaries.

The major assumptions used by the actuary at the balance sheet date were:

	2021	2020
Rate of increase in pensions in payment	3.70%	3.30%
Discount rate	2.05%	1.55%
Inflation assumption	3.70%	3.30%

The mortality assumptions used in the valuation of the defined benefit scheme liabilities of the plan are summarised in the table below and have been selected to reflect the characteristics and experience of the Membership of the plan. The mortality assumption for 2021 follows the table known as S3NA with CMI 2021 projections. The mortality assumption for 2020 follows the table known as S3NA with CMI 2019 projections. The assumption for the long-term improvement rate in the CMI model has been updated from 1.25% pa in 2020 to 1.0% pa in 2021.

These can be summarised as follows:

Life expectancy at age 65	2021	2020
Male currently aged 45	23.9	24.2
Female currently aged 45	26.4	26.5
Male currently aged 65	22.9	22.8
Female currently aged 65	25.3	25.1

	2021
Changes in the fair value of the scheme assets are as follows:	**£000's**
Opening fair value of scheme assets	11,430
Interest income	175
Return on assets less interest	379
Contributions	90
Benefits paid	(173)
Administration cost	(224)
Closing fair value of scheme assets	**11,677**

	2021
Changes in the present value of the defined benefit obligation are as follows:	**£000's**
Opening defined benefit obligation	11,430
Interest cost	148
Benefits paid	(173)
Experience gain on liabilities	(0)
Change in demographic assumptions	(603)
Changes to financial assumptions	(142)
Restriction to liability gain to derecognize overall surplus	1,017
Closing defined benefit obligation	**11,430**

	2021	2020
The amounts recognised in the profit and loss account are as follows:	**£000's**	**£000's**
Analysis of the amount charged to operating profit:		
Current Service Cost	224	145
(Gains) / Losses on settlements and curtailments	-	-
Total operating charge	**224**	**145**
Analysis of the amount credited to other finance income:		
Interest return on pension scheme assets	(175)	(217)
Interest on pension scheme liabilities	148	177
	(27)	**(40)**
Total	**197**	**105**
Actual return on assets	**554**	**121**

27. POST EMPLOYMENT BENEFITS (continued)

The fair value of the plan assets can be summarised as follows:	2021	2020
Multi-asset funds	34%	34%
Absolute return bond funds	32%	32%
Cash	1%	1%
Liability driven investment	33%	33%

	2021	2020
The amounts recognised in the statement of financial position were are as follows:	£000's	£000's
Fair value of assets	11,677	11,430
Present value of funded obligations basic calculation	(8,895)	(9,665)
Surplus / (Deficit) in scheme	2,782	1,765
Restriction to surplus	(2,782)	(1,765)
Net Pension (Deficit)	nil	nil

The standard FRS102 calculation based upon the parameters disclosed above resulted in a surplus of £2,782k. In line with the standard, the surplus in the year was not recognised. This was done to reflect the fact that there is not an unconditional right to the surplus and a benefit to the company is not anticipated to arise e.g. a refund of contributions or a reduction of contributions towards the recovery plan agreed with the pension trustees.

28. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2021	2020
	£	£
Trade creditors	950,168	930,059
Other taxation and social security costs	92,678	800,669
Other creditors	34,015	102,340
Corporation tax	0	0
Amounts owed to a subsidiary undertaking	0	0
	1,076,861	1,833,068

29. TRANSACTIONS WITH RELATED PARTIES

Directors who have insurance policies with the Company receive this service on normal commercial terms, or as relevant for Executive Directors on terms consistent with all other employees. Employees are able to take out products for personal lines products at a staff reduction of 25% which represents the service cost of such policies.

Related parties include close relatives of Directors and companies in which such persons have an interest.

Total premiums on policies held by related parties' amount to £66k (2020: £65k) of which £14k (2020: £16k) was still due at the year-end through normal use of instalment payment terms available to all Members. £7,203 (2020: £8,712) of premium was on personal lines policies for which the relevant Directors have received a staff reduction.

Claims on policies held during the year gave rise to payments of £20k (2020: £28k) with a further £10k (2020: £14k) provided as a provision for future payments against these claims.

These premiums on the insurance policies are not considered material to either party. The level of claims incurred is not considered material, however, due to the nature of the business, future claims may arise on these policies which may be considered to be material to either party. Any such claims are dealt with on normal commercial terms.

Please refer to note 13 in respect of key management compensation.

There are no other material related party transactions that require disclosure.

30. FINANCIAL COMMITMENTS

	2021	2020
Operating lease commitments as lessee	£	£
Expiry date:		
- within one year	109,747	96,853
- between one and five years	158,662	110,205
- after five years	0	12,250
	268,409	219,308

The cost recognised in profit and loss in respect of operating lease commitments in the current year was £176,405 (2020: £218,279).

Head office: CMA House, Newham Road, Newham, Truro, Cornwall TR1 2SU
Tel: 01872 277151
Email: askus@cornishmutual.co.uk   www.cornishmutual.co.uk

Company Registration Number: 00078768
Authorised by the Prudential Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority

Chartered Insurer

Cornish Mutual