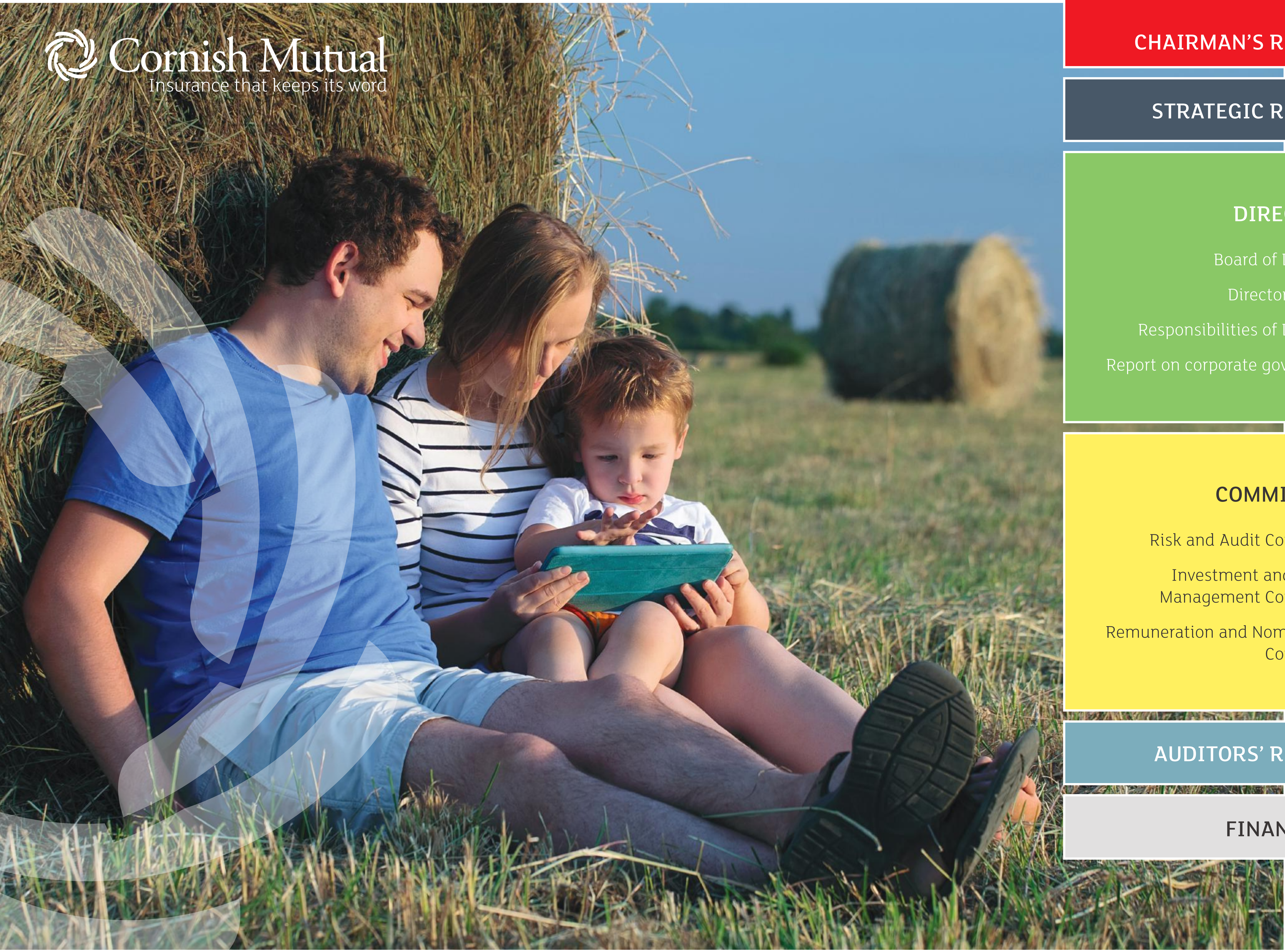
2018

ANNUAL REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2018

Company Registration Number: 00078768


Cornish Mutual
Insurance that keeps its word

The Company continues to set the highest standards, and once again we have retained our Chartered Insurer status, which acknowledges our competence and skill in dealing with the issues necessary to assist our Members.

I am pleased to present our Annual Report and Financial Statements for the year ended 30th September 2018. The Report gives a full picture of the way that the Company is run, and our objectives on behalf of our Members. Our Accounts to our financial year end report further sustainable growth in your business. We are confident that our approach, and our continuing focus on our Members, as well as supporting young farmers across the region, is the right strategy.

We continue to be represented at agricultural shows, whether large or small. Our staff have enjoyed the opportunity of meeting Members (and indeed would-be members), and demonstrating to them our core beliefs and focus. Again, we have attended over 60 events throughout the year. We continue to support the various Farm Business Awards in our region.

Our results are always affected by the changes in our investments. We have continued to reduce our dependency on equities, and our investment in securities that reduce our exposure to the volatile markets has proved beneficial. A full statement appears in the report from our Investment Committee Chairman, Charles Pears.

It has been ten years since the financial collapse in 2008. The increasing regulation of financial services since that time has presented us with some challenges, as has the introduction of the General Data Protection Regulations. I am pleased to report that we have met all the timetables set for these matters, and I thank all of our staff who had a hand in planning and implementing our response to these challenges.

The continuing uncertainty about Brexit will hopefully be resolved by the middle of our next financial accounting year, and I shall be pleased to give an update of our response to it in my next report. We are very aware of the concerns expressed by the agricultural community. As I said last year, it is not the role of the Company to take any political position, but we will do all we can to assist our Members by providing consistent sustainable premiums, to allow them to budget more effectively.

As a regulated insurer, we too face a number of risks. I thank the members of our Risk and Audit Committee, under the Chairmanship of Paul Davies, for guiding the Company, and ensuring that not only are we aware of such risks, but that we are prepared to meet them. Paul's report appears later.

The Company continues to set the highest standards, and once again we have retained our Chartered Insurer status, which acknowledges our competence and skill in dealing with the issues necessary to assist our Members.

There has been continuing external and public focus on the remuneration paid to both Executive and Non-Executive Directors. We seek to run the Company for the long term benefit of its Members. I am confident that the present composition of the Board is appropriate and that our remuneration is within reasonable bounds, commensurate with the increasing complexity of the role.

A full report of the work of the Remuneration and Nomination Committee is given by its Chairman Roger Cawse later in this Report. I am delighted to confirm we have co-opted two new Non-Executive Directors, Sue Turner and Richard Lane, both experienced business professionals. These appointments further strengthen our Board, and both will stand for election to the Board by the membership in March 2019.

The forthcoming year will be no less challenging than the last. In planning for the future, we shall never lose sight of the things that make this a great organisation.

The role of Mutual organisations like ours, with our values and long term view, have an increasingly important role to play in today's volatile financial world.

It is pleasing to see the Financial Conduct Authority tackling unfair price discrimination practices with some vigour. Cornish Mutual has long taken the view that discounting of new business to the detriment of loyal Members is a fundamentally unfair practice. Consistent and fair pricing for all has been a core principle behind how this company operates and it is gratifying to see this approach being vindicated by a greater focus of regulatory attention.

We could not fulfil our ambitions, placing our Members at the centre of everything we do, without the continuing and active help of all the Directors and staff of the Company, and I wish to express my thanks to them all for their unstinting support. Their contribution and input is invaluable.

Ian Pawley

Chairman

11 December 2018

Strategic Report

The Business Model

Cornish Mutual exists to provide general insurance services to the rural community of the four counties of the South West of England. In delivering our objectives the intention is to preserve the value of the business for current Members and generate future value which will enhance the business and enable it to meet the general insurance requirements of both new and existing Members for the foreseeable future.

Service is the essence of what we do and we structure ourselves to ensure we provide the service which our Members desire. We operate with a Field Force which is charged with both providing service to existing Members and finding new Members by the provision of a local personal service. We are both flattered and reassured by the importance our Members place on the provision of this service.

It is our intention to deal with our Members as they choose and consequently significant numbers choose to deal with us via the Contact Centre. Our direct approach is offered face to face, by telephone and also by electronic media which means we are best placed to handle the insurance requirements of our Members in the manner which suits them. We do not transact business through intermediaries given that we believe the most attractive service and pricing is delivered through a direct relationship with our Members.

Whilst we have traditionally been viewed as an insurance provider to the agricultural community, increasingly we are becoming more relevant to the wider rural community. This is particularly demonstrated by the ongoing provision of a householder's product where people are gratified to have the opportunity to enjoy our service in a personal capacity. We also increasingly provide insurance to businesses that provide products and services to the agricultural community or who represent areas of diversification from traditional agricultural activity, for example, holiday lets within rural communities. We value the recommendations our Members can make to prospective new Members in these sectors.

Strategy and Objectives

The Company delivers the business model through execution of plans aimed at delivering its vision of being the Rural Insurance Provider of Choice in the South West. We have 5 clear objectives:

Through exceptional service provision to exceed Member expectations and engender loyalty creating a willingness for recommendation.

To deliver sustainable growth charging fair, stable and competitive premiums.

To invest in our people to enable the development and retention of talent and the maintenance of our Chartered Insurer status.

To maintain appropriate levels of Members' Funds through adherence to policies which manage risks on a forward looking basis securing appropriate returns and meeting regulatory capital requirements.

To be a responsible member of the communities in which we operate utilising our knowledge, skills and resources to make a difference.

Following rigorous review by the Board these objectives remain valid and they continue to be delivered by the provision of a local personal service supplemented by a Contact Centre in Truro and the satellite to that operation which is based just outside of Tiverton. All our activities have the aim of putting Members at the centre of all that we do.

Key Performance Indicators

The Company continues to use a number of key performance indicators to understand the development and performance of the business. These range from financial ones, such as loss ratios, growth in written premium and amount of available capital to non-financial ones such as net promoter score (measures the willingness of customers to recommend a company's products or services to others), retention of Members at renewal and number of complaints.

Given our service ethos we also measure every aspect of the service we deliver, for example, number of telephone calls handled, abandonment rates of telephone calls and satisfaction measures.

Financial Aims

To support the strategy and business model of the Company, our financial aim is to maintain an appropriate level of Members' funds to support and grow the business.

To achieve this we set out to make a small return on the insurance activity which is supported through returns on investment assets.

To protect the capital of the mutual, held as Members' funds, we make extensive use of reinsurance.

Financial Performance

Members' Funds need to be maintained at an appropriate level to meet the expected level of current and future claims. Managing the level of these reserves is key to the financial success of the company, balanced with our aim to deliver good general insurance cover at a competitive rate. Members' Funds declined by £300k in 2018 (2017: increased by £3m) over the year, but remain comfortably in excess of regulatory requirements and our own appetite.

Insurance performance has been very much in line with average and expected returns but overall returns were driven lower by very poor investment performance in 2018. This is discussed further below.

Financial Highlights at a Glance

Year	2012	2013	2014	2015	2016	2017	2018
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Gross Written Premium	**19,210**	**20,300**	**20,570**	**20,590**	**20,820**	**22,310**	**23,440**
Gross Earned Premium	**18,450**	**19,810**	**20,460**	**20,710**	**20,600**	**21,500**	**23,000**
Less: Gross Claims	13,580	14,460	13,790	9,460	10,870	12,070	13,830
GELR %age	74%	73%	67%	46%	53%	56%	60%
	4,870	5,350	6,670	11,250	9,730	9,430	9,170
Less: Expenses	4,970	5,140	5,310	5,570	5,960	6,430	6,830
Gross Earned Expense ratio	26.9%	25.9%	26.0%	26.9%	28.9%	29.9%	29.7%
Gross insurance result	**(100)**	**210**	**1,360**	**5,680**	**3,770**	**3,000**	**2,340**
Profit before tax	2,580	1,460	360	790	1,590	2,350	(10)
Less: Investment returns	2,320	2,050	1,040	350	1,820	1,890	580
Net insurance result	**260**	**(590)**	**(680)**	**440**	**(230)**	**(460)**	**(590)**
Effect of reinsurance	**360**	**(800)**	**(2,040)**	**(5,240)**	**(4000)**	**(2,540)**	**(2,930)**
Effect of reinsurance as %age of Gross Earned Premium	2%	(4%)	(10%)	(25%)	(19%)	(12%)	(13%)
Members' Funds £m	**17.7**	**18.4**	**19.4**	**20.0**	**20.4**	**23.4**	**22.9**

Rounded to nearest £10,000

The table above includes our financial key performance indicators. The table is organised to show the difference between the gross and net insurance performance and therefore the total impact of all reinsurance arrangements.

The individual indicators are discussed in more detail in the following paragraphs.

Gross Written Premium

As a result of reinsurance costs rising in the motor market it was necessary to raise premiums above inflation to pay for this directly increased cost. This had an impact on both 2017 and 2018.

We continue to see demand for our offering and underlying growth continued. We have increased our presence in the eastern end of our South West territory and this is starting to gain traction.

Gross written premium increased over the period to £23,437k (2017:£22,314k).

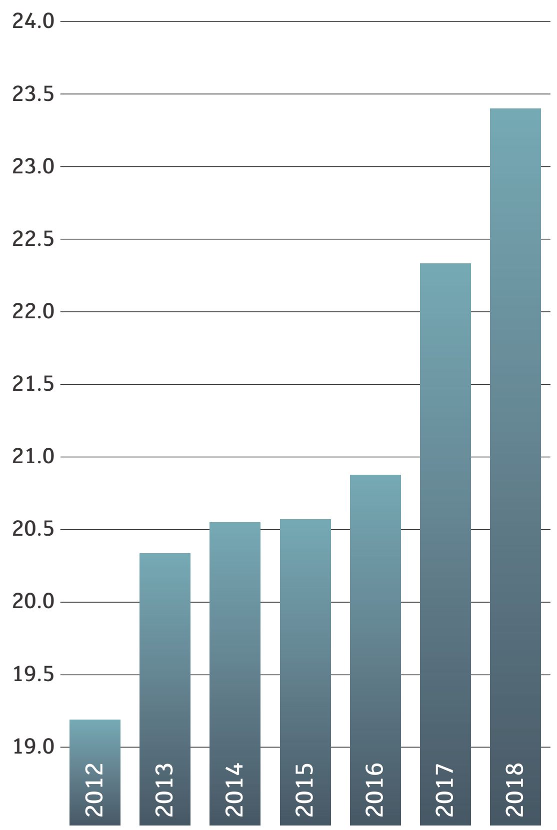
Gross earned loss ratio (GELR)

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 bought forward from previous accounting periods.

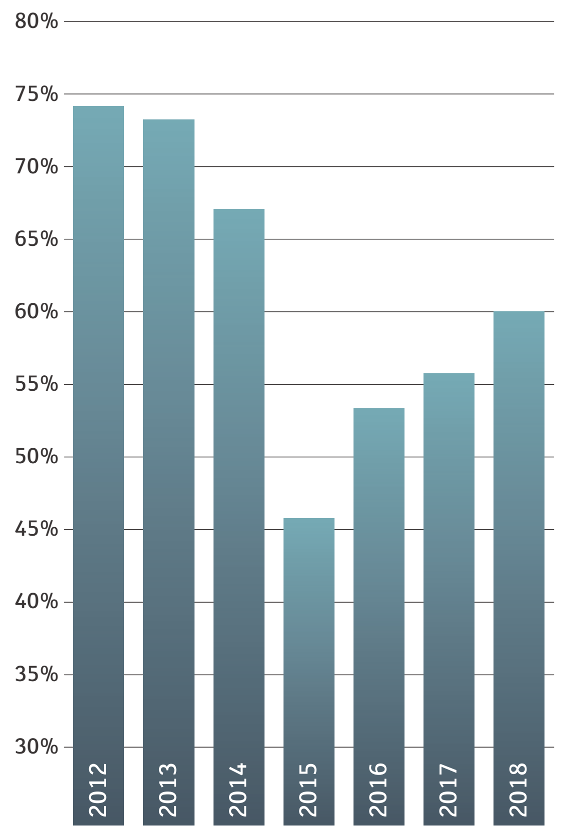
GELR shows the underlying performance of the book of business and reflects our ability to correctly select and price the risks we insure.

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 bad weather. For 2018 our reported loss ratio is almost exactly the average of the past seven years.

Gross Written Premium £m



Gross Earned Loss Ratio



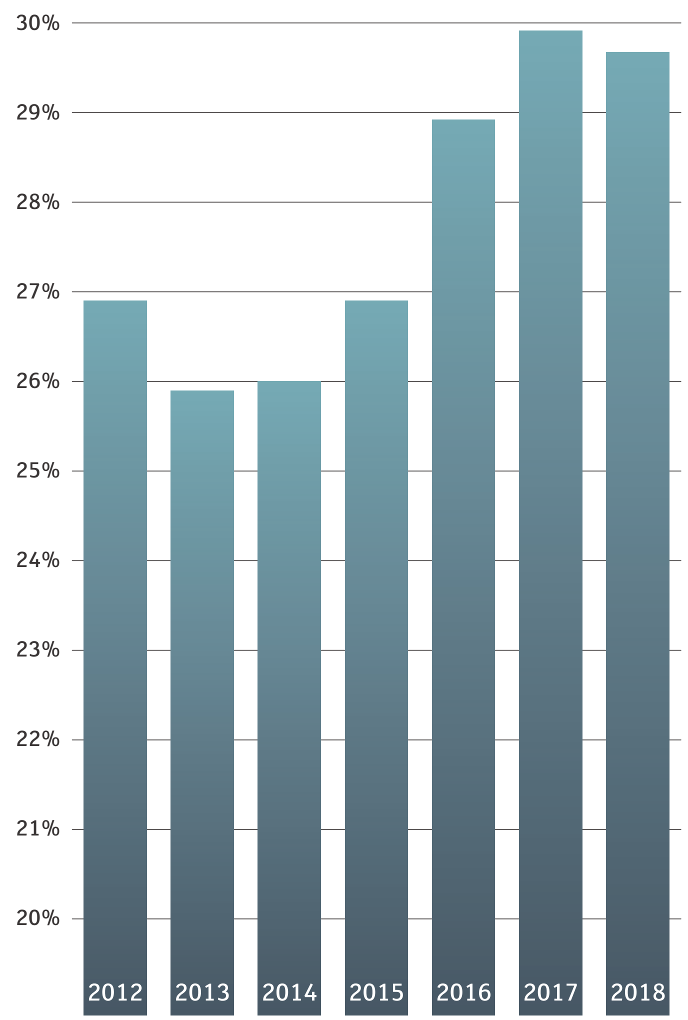
Expenses

Expenses include net operating expenses from the technical account and other charges from the non-technical account. In the current year the ratio of expenses to gross earned income decreased to 29.7% from 29.9% in 2017.

As a Member owned organisation, Cornish Mutual is always aware that any money we spend is Members' money. Without having carried out a formal benchmarking exercise we nonetheless look to compare favourably against other insurers on this measure. We believe we can dilute some fixed costs through future growth and if plans are met expect to see our expense ratio become even more competitive, particularly for an organisation of our scale.

Equally we will continue to commit resources in maintaining and developing the high level of service we believe that Members want and deserve.

Expenses as percentage of gross earned premium



The use and effect of reinsurance

Cornish Mutual, in common with other insurance companies, is exposed to potentially large though infrequent losses. For example, motor insurance in the UK is provided on the basis of unlimited liability. To protect against the possibility of a very large claim or a large number of claims arising from a natural catastrophe, the Company enters into reinsurance arrangements which would reduce the impact of such claims should they occur.

Cornish Mutual participates in two main types of reinsurance which protect Members' Funds.

Quota share reinsurance 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.

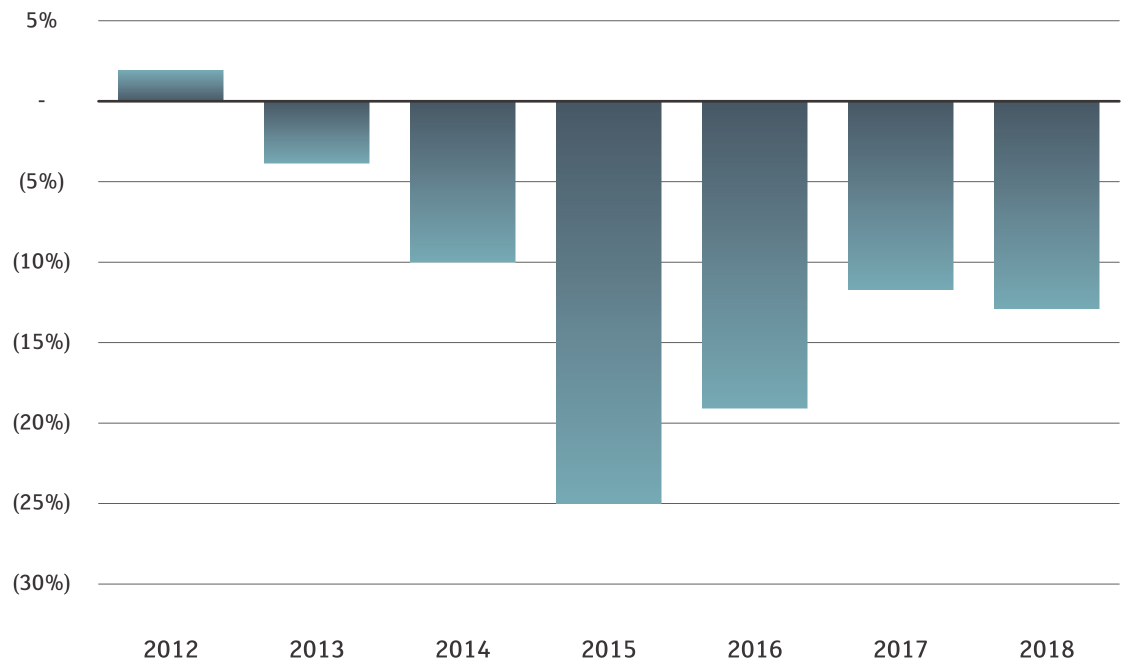
While quota share reduces the impact of large claims, it still leaves the possibility of a large loss on the share of business we retain. To protect against the risk to the retained share, we purchase excess of loss insurance. This provides protection for certain incidents or events in excess of agreed limits. Cornish Mutual pays a premium for such cover. From January 2018 we saw a significantly increased cost of this reinsurance for motor and liability cover reflecting changes to the Ogden discount rate, set by the government and used to calculate the cost of personal injury claims.

Whilst clearly reinsurance comes at a cost, the net insurance result is much less volatile than the gross insurance result.

The main benefit is the protection reinsurance gives against losses that would otherwise threaten the capital base of the Company, as described in the risk management section of this report.

In none of the last six years have we seen the sort of catastrophe or large motor loss which could threaten the capital base so the full protection potential of the cover is not evident in the table above.

Impact of reinsurance as a %age of gross earned premium



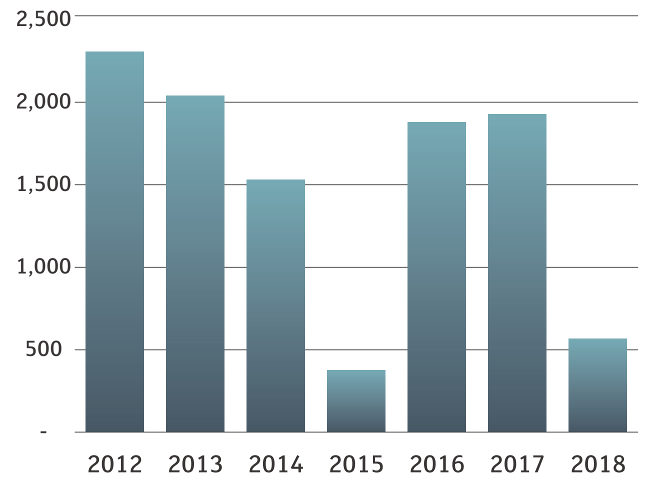
Investment Returns

Investment returns in 2018 were below the expected level.

The number disclosed here includes a £312k dividend paid from a subsidiary. This means the return from our externally managed investments is £268k.

The expectation of a low return environment over a longer period of time is challenging for insurers, especially when combined with the potential for market shocks. The use of multi asset funds gives our selected expert investment managers more ability to manage these challenges on our behalf.

Investment returns £'000



Comprehensive Income

Within the statement of comprehensive income is a fair value revaluation associated with a subsidiary. The reduction reflects the fall in value as a result of the premium paid to the Company. The overall effect on Company profit of these two transactions is nil but the disclosure is split between investment income and comprehensive income.

Statement of Financial Position

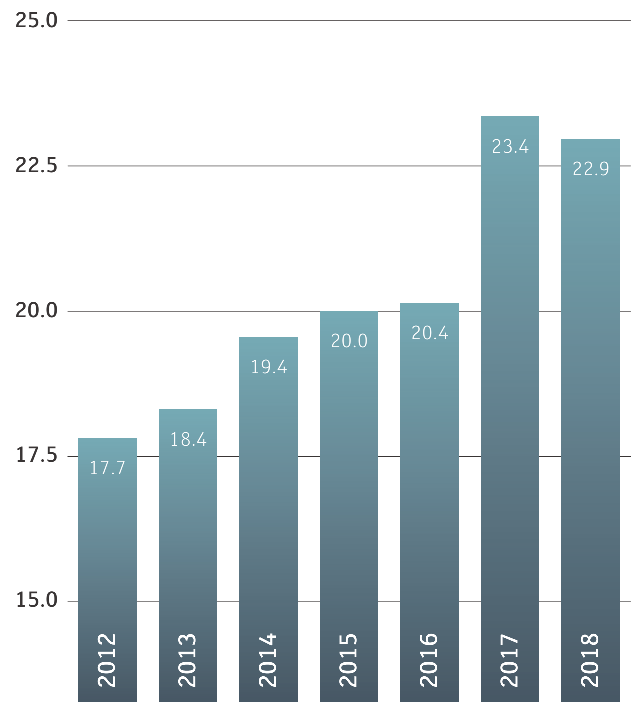
Members' Funds have fallen in the year from £23.4m to £22.9m.

Overall the relative levels of the various assets and liabilities is similar to last year.

Claims reserves require a level of judgement and this is discussed in note 5.

The value of the pension provision also 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. 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 scheme remains, although it now appears with a nil value in these financial statements.

Members' Funds £m



Cash Flow

The levels of capital prescribed by the Prudential Regulation Authority, held in Cornish Mutual as retained profit, results in significant investment assets on the balance sheet. Thought goes into ensuring assets held are suitably liquid. Cash flow does not present a significant risk and the Company maintains considerable flexibility in this respect. The total amount and timing of claims payments is the main factor determining cash flow.

Overall Financial Performance

The Company produced a pleasing level of premium growth in 2018. Sustainable growth is a key objective of the company and underpins future performance.

The overall results reflect the inherent uncertainty in both the insurance activities and investment returns and the profitability lies within the range of acceptable values given this underlying volatility.

The balance sheet remains well managed and Members' Funds maintain a surplus over regulatory capital requirements which reflects the Company appetite.

The Company has structured its investments and reinsurance arrangements so as to take the appropriate levels of risk it needs to achieve the desired outcomes. 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.

Non-financial Performance (Net Promoter Score)

Twice a year we conduct research amongst our Members; we sample those who have recently had a claim and those who have recently taken out a new policy. One of the issues we explore is their willingness to recommend Cornish Mutual to others on the basis of their experiences. From this we derive a Net Promoter Score. We have consistently scored highly against this measure and our current NPS for the claims cohort is 79% (2017: 77) whilst that for new business is 81% (2017: 88%). Both of these are industry leading benchmarks which reflect the level of service we consistently provide to our Members.

Review of the Business

We continue to focus on activities which will deliver quality service for our Members in line with their expectations and at the same time deliver against our objectives. The Own Risk and Solvency Assessment (ORSA) process has become an important part of how we manage the business.

The year under review has seen work undertaken to ensure we are compliant with the Senior Managers and Certification Regime (SM&CR) from December 2018 when these regulations replace the Senior Insurance Manager's Regime (SIMR).

We are a values driven business and we work hard at ensuring we understand the particular needs of our core Membership. To this end we undertake significant amounts of training relating to rural and agricultural issues. Our satellite office, The Barn, near Tiverton plays an important part in the development of the business. We are able to offer an enhanced service to our Members in Devon, Somerset and Dorset while the premises themselves help us manage some of the business risks we face, particularly business continuity.

Wherever possible we try to add value to our relationships with our Members and enhance our dealings with them. In the period under review we have continued to engage with our Members at shows and events; throughout the financial year we have engaged our membership at events, on average once a week.

Future Development

The market in which we trade continues to be very competitive and our core market continues to feel the impact of ill winds. Agriculture is very much a global activity and events in the Far East, as much as those in Europe and the United Kingdom, will impact on the wellbeing of our core Membership. The continued lack of clarity surrounding Brexit and its aftermath adds to the uncertainty both we and our Members face. We expect to see further consolidation and diversification in the agricultural sector and will work hard to be best placed to fulfil the insurance requirements of our Members as their needs change.

An essential part of this is ensuring our people are well trained and capable of delivering what our Members require and, given our position as the only general insurer headquartered in the South West, this will continue to be challenging for us. Our customer relationship database is becoming more important as a tool in helping us provide a rounded service to our Members. We have succeeded in our desire to have more staff Field based; we remain convinced this gives us competitive advantage in our market place.

We will take advantage of the technological changes which are impacting the insurance market place whilst retaining the attributes which our Members desire.

Cornish Mutual remains committed to the mutual ethos and we are exploring with other financial mutuals how we could work together to develop our respective markets.

Principal Financial Risks and Uncertainties

The Board, via the Risk and Audit Committee, ensure the risks which the business faces are managed in a prudent and conservative manner. The Company operates a comprehensive risk management framework through which it identifies, monitors, reports and manages its principal risks within risk appetite and ensures that adequate capital is held against them. The key tool to enable this to happen is the Risk Appetite Tolerance and Controls register. The key Solvency II risks which the business faces are as follows:

Insurance Risk

The insurance risk the Company faces arises from the inherent uncertainties as to the occurrence, amount and timing of insurance claims. This is the essence of the business and a number of measures are in place to ensure that this risk is managed prudently and conservatively. These include our underwriting policy, meetings of our Large Loss Committee, the Pricing and Underwriting Committee, the Underwriting Referral Committee, the Management Risk Committee as well as the monthly Business meeting which reviews all statistics relating to the insurance side of the business.

An essential part of managing our insurance risk is our reinsurance approach. In a rapidly changing market place we continue to work hard to ensure we have the most appropriate arrangements for our circumstances. As part of this work we asked Willis Re to conduct a review of our current arrangements to see if there were more appropriate solutions to meet our requirements. We expect the results of this review early in the next financial year.

Credit Risk

Given our reliance on reinsurance partners, credit risk is significant for Cornish Mutual. It 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 Members. Significant controls are in place to ensure that the risk is minimised:

- Contractually we pay our reinsurers quarterly in arrears with the claims being paid by us out of the premiums which we collect.
- We monitor the credit ratings of our reinsurers, as well as the retrocessionaires, and review their financial strength annually prior to renewal.
- As notified claims have been settled, the amount owing from reinsurers, and the associated risk, has remained virtually unchanged.

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. Our reinsurance arrangements and the significant liquid assets the business holds means that liquidity is not a significant risk for Cornish Mutual.

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 corresponding movement in the value of liabilities. Our investment policy ensures that we have a suitably diverse balance of assets. 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 Solvency Capital Requirement (SCR).

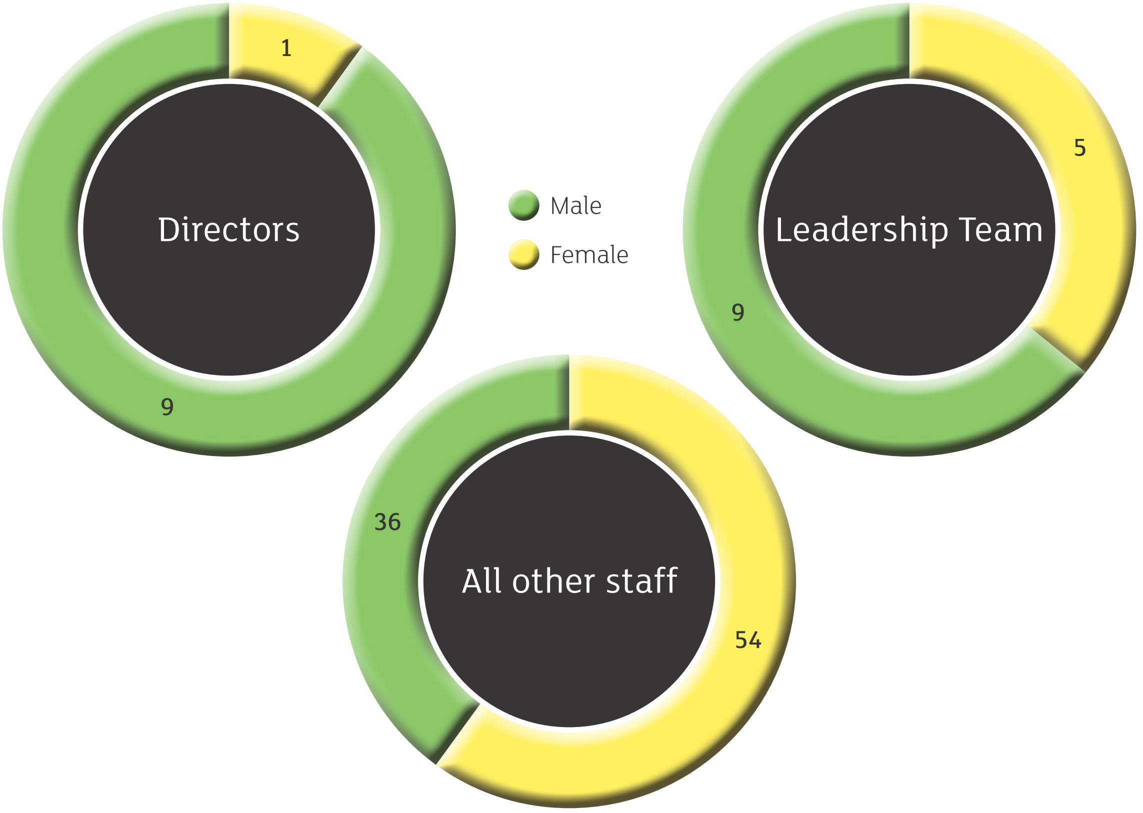
Operational Risk

In many respects operational risks are the main ones faced by Cornish Mutual. They 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 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. The year has seen significant changes in regulation which has impacted this area. The most significant of these was the introduction of the General Data Protection Regulations (GDPR). Significant work was undertaken by the business to ensure the new requirements were met. Operational risk grows yearly, with more to be managed and controlled and as a result of this overall operational risk has increased over the financial year.

Corporate and Social Responsibility

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. This year has seen the introduction of an initiative where staff have given their time to Charites. As a result of this, the Tale Valley Trust, i Sight Cornwall and the South West Children's Hospice have all benefited. Additionally, we have supported other charities, being an organiser of the ROC 5K event in Truro and have been particularly proud of our part in raising a record amount for the agricultural charities, RABI, FCN and Addington at an auction at the Royal Cornwall Show in June.

In doing this, our people are particularly important to us. The number of people engaged in the business over the past financial year are as follows:



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 40% of our staff work non-typical hours which enables them to balance work with other commitments and maintain their career aspirations.

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 have 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 and Operations Director. In addition the Company Secretary carries out a review to ensure consistency across the document.

Going Concern

The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, 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.

Viability Statement

The ORSA process identifies the assumptions which the Company has made in assessing how the business will develop and results in an annual report available to our Regulators.

The Company produces a five year plan with a forecast balance sheet for each year. Two core scenarios are modelled, one assuming existing reinsurance arrangements and a second assuming that quota share reinsurance cover ceases but existing excess of loss cover is maintained. These reinsurance types are explained on page 8.

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, the Company has a reasonable expectation that it will be able to continue in operation and meet its liabilities as they fall due for a period of at least five years. The key assumption supporting this expectation is the continuing availability of appropriate reinsurance cover being available.

On behalf of the Board

Alan Goddard

A. Goddard

Managing Director

11 December 2018

Directors

The following people served on the Board of Directors during the year ended 30 September 2018.

I J PAWLEY LLB

J R DAVISON LLB, ACA (retired March 2018)

J P OATEY

P J DAVIES BSc, C Dir, FPMI, FIDM, FIOD

A GODDARD Managing Director, MA (OXON), ACII, DipMgmt (Open), Chartered Insurer

P S BEAUMONT Finance and Operations Director, BSc, FCA, Cert CII

R B CAWSE JP, MA (EXON), DMS, FCIB

C W PEARS BA (Hons), ACII

R LANE TD, BA DCMI, FCII (appointed February 2018)

S E TURNER LLB (Hons) (appointed February 2018)

P W D MAHON Insurance Director, BSoc Sc, FCII (appointed May 2018)

M P SCHWARZ Company Secretary BS, MSc

Registered Office: CMA House, Newham Road, Truro

The Directors have pleasure in submitting the Annual Report and Financial Statements for the Company for the year ended 30 September, 2018.

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 Dual Corporate Risks 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 11 and 12 of the financial statements. Additional information relating to risk management can be found in note 5 and in the Report of the Risk and Audit Committee.

Directors

In line with the Company's constitution, having served three years as Directors since their last election, Mr Cawse, Mr. Goddard, and Mr. Pears will offer themselves for re-election at the AGM in March 2019.

Having served ten years as a Director, Mr Pawley offers himself for annual re-election.

Mr. Davison stepped down at the Annual General Meeting in 2018 after ten years' service as a Director.

Mr. Richard Lane and Mrs. Sue Turner were co-opted on to the Board as directors in February 2018. Mr. Paul Mahon was co-opted on to the Board effective 1 May 2018. All three will stand for election at the Annual General Meeting in 2019.

Auditors

PricewaterhouseCoopers LLP (PwC) were appointed as Cornish Mutual's external auditors on 16 June 2017 and have conducted the audit for the financial year ended 30 September 2018. There will be a proposal for their re-appointment at the AGM in March 2019.

On behalf of the Board

M. Schwarz

Margaret Schwarz
Company Secretary

11 December 2018

The Companies Act 2006 requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of its profit and loss account for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business;
- consider whether the Annual report and consolidated financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for Members to assess the Company's performance, business plan and strategy.

The Directors have complied with the above requirements. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the provisions of the Companies Act 2006 applicable to Insurance Companies. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements are published on the Company's website. The maintenance and integrity of this website is the responsibility of the Directors. Legislation in the UK governing the preparation and dissemination of financial statements may differ from the legislation in other jurisdictions.

Statement of disclosure of information to auditors

The Directors have taken all the steps that they ought to have taken in order to make themselves cognisant of any relevant audit information and to establish that the Company's auditors are aware of that information. To the best of their knowledge, the Directors consider there is no relevant audit information which has not been brought to the attention of the Company's auditors.

On behalf of the Board

Ian Pawley
Chairman

11 December 2018

The Board and Committees

The key function of the Board is to ensure that the business is run in an appropriate manner; what follows describes how Cornish Mutual exercises this responsibility.

The Board meets at least six times a year. In addition we have a strategy day where we focus on wider issues which affect our business and check that our plans remain appropriate. The main focus of the Board is on the following areas:

- Strategy and Management which include 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.
- Stewardship of Members' Funds which includes selecting investment managers and strategies.
- Financial reporting and controls which include 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 Nominations 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 operates three Committees:

1. A Risk and Audit Committee chaired by Paul Davies. Current members of this Committee are Richard Lane, Charles Pears, and Sue Turner.
2. An Investment and Capital Management Committee chaired by Charles Pears. Current members of this Committee are Paul Davies and Richard Lane.
3. A Remuneration and Nominations Committee chaired by Roger Cawse. Current members of this Committee are Jeremy Oatey and Sue Turner.

Alan Goddard as Managing Director attends all Committee meetings; Peter Beaumont as Finance and Operations Director attends the Risk and Audit and the Investment and Capital Management Committees. Ian Pawley, as Chairman, usually attends all Committee meetings. All Board members have an open invitation to attend any Committee meeting. The full details of the work of each of these committees are included later in this document.

Regulation

In accordance with Solvency II requirements, Cornish Mutual formally conducts its Own Risk and Solvency Assessment (ORSA) regularly. We prepare an ORSA report which is available to the Prudential Regulatory Authority on request. 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.

In May 2018, the Company successfully implemented the requirements under the General Data Protection Regulation to safeguard the use and storage of all personal data.

The Board held a special meeting on 20 November 2017 to consider a commercial proposal brought by a third party. This proposal was not taken forward.

The Company is preparing for the extension of the Senior Managers and Certification Regime (SM&CR) to insurers in December 2018. The purpose of the regime, which already applies to banks and investment companies, is to encourage staff to take personal responsibility for their actions; improve conduct in financial services at all levels; and make sure firms and staff clearly understands and can demonstrate who does what. SM&CR replaces the Senior Insurance Manager Regime implemented in 2016.

Independence

Non-Executive Directors must be in a position to challenge the Executives; therefore, they must be independent in character and judgement. Six of the seven current Non-Executive Directors have served less than nine years on the Board and are regarded as independent in both respects. The Company believes that in some instances longevity represents stability but in these circumstances annual re-election is required. Terminating all appointments after nine years of service could lose the Board valuable knowledge of the organisation. To balance this, all Non-Executive Directors are rigorously evaluated to ensure they remain in a position to operate independently and remain fit and proper people to undertake the role.

All Directors are required to be Members of the Company by holding a policy. Voting at the AGM is per Member rather than per policy, so Non-Executive Directors are unable to dominate. We expect all our Directors to represent the best interests of Members at all times, reflecting the Member Centric approach the business adopts.

Performance Evaluation

The Chairman evaluates all Board members through individual appraisals. The Chairman is also reviewed each year by the Senior Independent Director or one of the Committee Chairmen. To encourage openness and a free exchange of views, the Board meets at least once a year without the Executive and once a year without the Chairman. The results of these meetings are considered in the individual's appraisal.

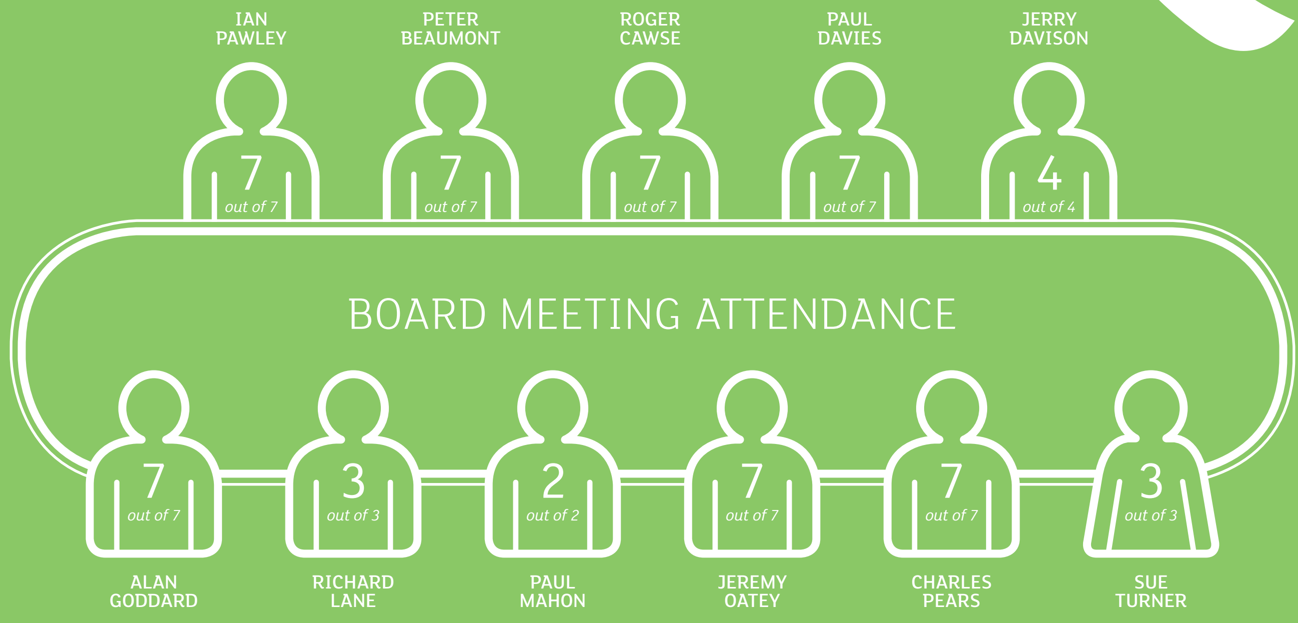
The Board collectively is evaluated periodically by an external party to ensure the business is run in an appropriate manner.

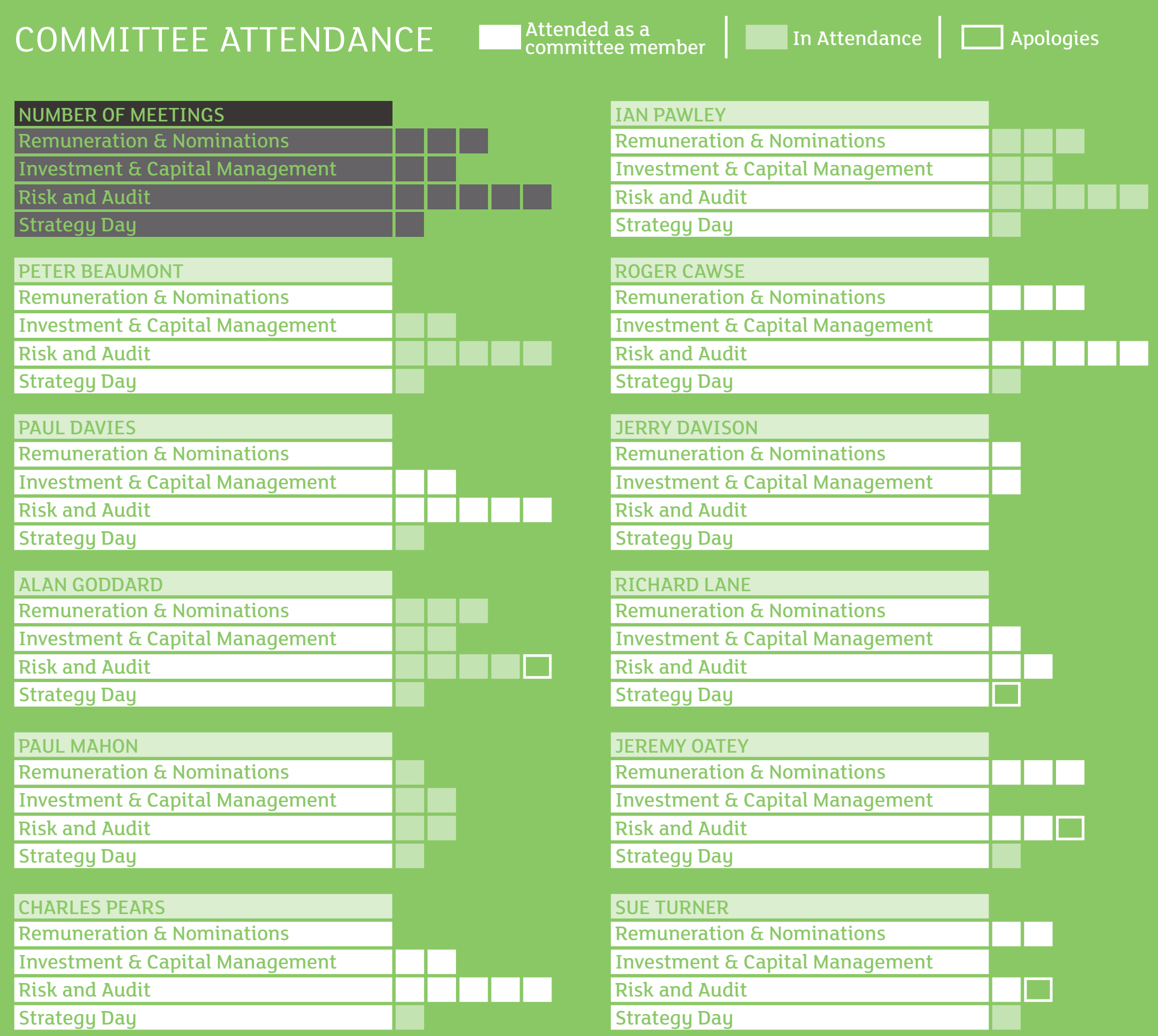
The Annotated Corporate Governance Code

The Company continues to use the Annotated Corporate Governance Code as a benchmark to demonstrate good governance. In line with the requirements of the Code, the following are the areas where the Company chooses to explain rather than comply:

a) Code provision D.1.1 states that in designing schemes of performance-related remuneration for executive directors, the remuneration committee should follow the provisions in Schedule A to the Code. Schemes should include provisions that would enable the company to recover sums paid or withhold the payment of any sum, and specify the circumstances in which it would be appropriate to do so. Cornish Mutual does not provide specific performance related schemes of remuneration; therefore, this provision is not relevant to the Company.

b) Code provision D.1.2 states where a company releases an executive director to serve as a non-executive director elsewhere, the remuneration report should include a statement as to whether or not the director will retain such earnings and, if so, what the remuneration is. This situation is not, and has not been, applicable to Cornish Mutual. Should the situation arise the Company would determine the best approach on a case by case basis and report it in the remuneration report.





Board members

The current Board is as follows:

Ian Pawley

Chairman

As a solicitor, Ian Pawley has lived and worked in Cornwall for all his professional life. He understands the agricultural sector particularly well having dealt with many issues around farming and inheritance tax. Ian, a former managing partner of regional legal firm Stephens Scown, joined the Cornish Mutual Board in 2009 and brought with him an extensive knowledge of modern legal and business requirements including corporate governance. Ian was elected Chairman in April 2011. He takes an active interest in the rural and agricultural community in the South West. Ian has held a number non-executive and trustee positions in Cornwall, as well as being involved in local charity work and the St Austell Rotary Club.

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Peter Beaumont

Finance and Operations Director

Peter Beaumont has a wealth of experience in the IT and financial services industries including insurance and banking. Peter took up the role of Finance Director with Cornish Mutual in January 2009, having relocated with his family to Cornwall. Peter has held various director level appointments covering both finance and operations. Having trained and qualified as a Chartered Accountant within public practice, Peter has spent his career within commerce. With a track record of introducing change, he is committed to further developing and delivering a first-class service to all Cornish Mutual Members.

Roger Cawse

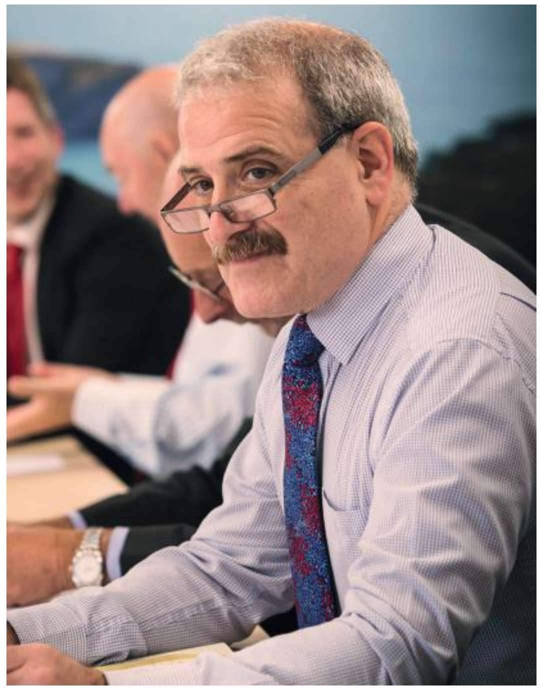
Senior Independent Director

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 Chairman of the Finance Committees of a major national housing association and a Hospiscare charity. He is currently a Non-Executive Director at Civil Service Healthcare Society Ltd, where he is also Chairman of the Audit and Finance Committees. 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 near the Cornish border close to the northern extremity of the Tamar Valley.

Paul Davies

Non-Executive 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 non-executive director and Council Member at the University of Gloucestershire and is a pension fund trustee with Unum. 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.



Alan Goddard

Managing Director

Alan Goddard joined the company as Deputy General Manager in December 2001. Alan was appointed Managing Director in August 2004 and became a Member of the Board. Alan has extensive experience of the financial and insurance sectors having worked in the industry for most of his adult life. Alan, a Chartered Insurer, is also a Board Member of the Association of Financial Mutuals and chairs their regulation and governance committee. He has previously worked with PricewaterhouseCoopers and The Royal Insurance Group. He is passionate about the rural community in the South West and sits on the Staff Management Committee of Cornwall Young Farmers Clubs (CYFC).

Richard Lane

Non-Executive Director

Having spent his whole career in the insurance industry, Richard Lane was appointed to Cornish Mutual's Board in 2018. He has previously been Managing Director at Ansvar Insurance, part of the Ecclesiastical Group, also having worked at LV=, Zurich and RSA. Richard served as an Army Reservist, initially as a Combat Engineer and subsequently as a Logistician. He finished his Army career working in Army HQ developing Leadership training and the civilian accreditation of training. He is both a Chartered Insurer and a Chartered Manager. Richard is married with four children.

Paul Mahon

Insurance Director

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 Ernst & Young and PricewaterhouseCoopers 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.

Jeremy Oatey

Non-Executive Director

With an extensive background in farming, and having won Farmers Weekly Arable Farmer of the year in 2013, Jeremy Oatey is passionate about the farming community. As a Director of Cornwall Farmers Ltd and owner of Agricola Growers Ltd, Jeremy is also a Member of Cornish Mutual for his own farming business. Cornish born and bred, Jeremy had the chance to work away from Cornwall, gaining experience and knowledge to then come back and start his own business.

Charles Pears

Non-Executive Director

Based in Mid-Cornwall Charles is an experienced insurance and investment professional. Previous roles include Head of Insurance at Insight Investment where he specialised in Solvency II and the management of investments on behalf of Insurers. Charles also led strategy and business management teams for Lloyds Banking Group insurance entities, National Australia Bank and Aviva Plc. He began his career in 1995 with Commercial Union where he held various roles in the general insurance and corporate partnership teams. Charles graduated from the University of Durham with a BA Honours in Philosophy and is an Associate of the Chartered Insurance Institute.

Sue Turner

Non-Executive Director

Sue Turner has spent her career supporting others to better their prospects. A Law graduate from Bristol University, Sue has been South West Director for the Confederation of British Industry, Director of a charity which worked with businesses to encourage young people to study Science, Technology, Engineering and Maths. She has worked as a headhunter and Director of Communications for The Bristol Port Company, the UK's most centrally located deep sea port. Sue is the Chief Executive of Quartet Community Foundation, one of the oldest and largest community foundations in the UK. Her maternal grandparents were farmers in Kent and her grandfather founded the Kent & Canterbury Building Society in 1951.

Directors' Remuneration

	Year ended 30 September 2018				
Director	**Remuneration (£)**	**Benefits (£)**	**Pension (£)**	**Total 2018 (£)**	**Total 2017 (£)**
P Beaumont	145,000	5,325	17,400	167,725	148,122
R Cawse	24,000	780	-	24,780	21,273
P Davies	25,000	780	-	25,780	21,273
J Davison	15,153	-	-	15,153	28,478
A Goddard	190,000	7,287	22,800	220,087	188,742
R Lane**	10,000	-	-	10,000	-
P Mahon**	41,667	2,408	5,000	49,075	-
J Oatey	20,000	325	-	20,325	17,822
I J Pawley	50,000	780	-	50,780	45,773
C Pears	21,500	325	-	21,825	17,822
G Shearn*	-	-	-	-	8,750
S Turner**	10,000	325	-	10,325	-
	552,320	18,335	45,200	615,855	498,055
National Insurance				64,360	53,861
Total				680,215	551,916

*comparative on a part year basis. **current year on a partial basis.

On behalf of the Board

Margaret Schwarz
Company Secretary

11 December 2018

Introduction

The full Terms of Reference of the Risk and Audit Committee (RAC) are published as Appendix 3 of the Board Charter which is available on the Company website www.cornishmutual.co.uk. The annual review of the terms of reference was completed by the Board at its July 2018 meeting.

The RAC is a key component of the required "Governance Map" showing responsibilities of senior insurance managers and lines of accountability within the firm. The map is used by the PRA in its supervision of the Company and also forms part of our ORSA.

Responsibilities of the Committee

The purpose of the Committee is to examine all corporate governance, risk and audit matters that affect the Company, and to assist the Board in satisfying itself that the Company's risk management systems and internal controls (including the functions of internal audit and compliance) are appropriate and sufficient to control, manage, and mitigate strategic and operational risks. As such, the Committee is responsible for oversight of the Company's ORSA process. In addition, the RAC reviews the work and findings of the appointed External Auditor, the outsourced Internal Audit service, and any other audit reports prepared by third parties or internally. This year the Committee also undertook a review of the Articles of Association and made recommendations to the Board for approval which were adopted by Members at the AGM.

Membership

The Committee is elected annually at the Board meeting following the Company's AGM which is held in March. During the year ended 30 September 2018 the Committee membership and attendance was as shown in the Governance report. Paul Davies has chaired the Committee since 2016.

The Committee is comprised solely of Non-Executive Directors, although the executive attends, and all current members have recent financial experience relevant to insurance. The committee has been refreshed in 2018 with the new NEDs joining the company who are able to bring alternate perspectives and challenge. All other Directors of the Board are also invited to attend meetings of the Committee. The Committee meets without the Executive attendees as and when the Committee Chairman considers it appropriate to do so.

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 policy has been significantly updated in 2018 to reflect current operating practice changes since the adoption of Solvency II. The annual ORSA Report is available to regulators and quarterly returns are submitted updating major changes and latest financials covering in respect of capital and solvency.

The RAC is responsible for recommending updates to the ORSA Report, which is 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.

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 the Finance and Operations Director who is the designated "Chief Actuary". The role is a vital control function delivering robust techniques within the control areas, minimising bias, and being conscious of the limitations and sensitivities to the assumptions deployed.

An Actuarial Function Report is now 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 the Board on the uncertainty inherent in numerical projections, judgements and conclusions. The report is utilised by PWC, 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 are discharging the duties of the function. The methodology deployed and outcomes derived have been reviewed by an independent general insurance actuary, most recently by PWC as part of the annual audit. RAC reviews the basis of the Company's claims reserving methodology each year, seeking such independent assurance every three years. In 2018 this has been achieved through PWC using an independent projection approach utilising their independent reserving model. A comparison of our internal basis and the independent basis has provided assurance that the methodologies used in assessing liabilities at 30 September 2018 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 quarterly and reports via the Chief Risk Officer to the RAC. The report focuses on the major risks, progress with controls and associated actions, the trend in risk level and any new emerging risks or removal of risks no longer valid. The RAC is pleased to report that no systemic failures have occurred.

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. As reported at the end of last year the RAC commissioned a full review of IT systems and security in November 2017 from PKF Littlejohn. The review identified a number of opportunities to further tighten controls which were completed to plan.

The Company purchases cyber risk insurance to cover the losses that could arise from a damaging cyber-attack on data or systems. The focus remains on preventing such attacks not only through careful IT systems design and control, but also through training all employees on cyber risks awareness and prevention. This focus has been extended in 2018 to cover all our social media activities.

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 upon the Company, control and mitigation processes, review procedures and any actions required to bring the risk in line with the Board's risk appetite. The document states the Board's risk appetite and target risk level in each case. 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 and has been updated during the year. The Head of Internal Audit and Governance Leader reports directly to the Chairman 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. PKF Littlejohn completed the first of these outsourced audits in late 2017 covering governance, risk and compliance in Cornish Mutual and found that these systems were well controlled. Recommendations on areas for improvement were implemented in full by year end. The introduction of this additional assurance is adding value to the organisation without incurring unnecessary extra expense or increasing headcount. During 2018 scheduled PFK Littlejohn audits were undertaken covering:

- IT environment
- Reinsurance purchase, business planning and capital modelling.

Both audits resulted in "Controlled" outcomes indicating that controls are effectively being applied and recommending improvements for enhancement.

The policy of the RAC and Board remains to continue to seek independent assurance concerning all technical aspects of the Company's operations and activities over a three 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 2018.

Cornish Mutual embeds its compliance function into business operations rather than establishing a separate team. In deciding to structure this way, the Company recognises the need to ensure that the requirements of the legal and regulatory framework do not suffer as a result of operational resource or performance pressure and that effective independent challenge and enforcement of regulation exists. The executive report to the RAC and thence to the Board any breaches of regulation that may occur. No breaches were reported in the year ended 30 September 2018.

A Positive Assurance letter from the Managing Director to the Board Chairman forms part of the annual control process. The RAC scrutinised and approved the annual Positive Assurance letter in respect of the year ended 30 September 2018. It was found to be a complete and accurate reflection of how control processes had operated effectively to identify and address issues arising during the year.

3. Review of Board Policies

The RAC reviews the effectiveness and appropriateness of all but four of the Board's twenty-five policies according to a prescribed periodic schedule and on an ad hoc basis as required. The Investment and Capital Management Committee reviews the Investment, Capital and Liquidity policies. The Remuneration and Nominations Committee reviews the Human Resources, Training and Competency policy.

The RAC examined the twelve policies 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. Significant changes were made to the Data Integrity and Data Protection policy to reflect requirements under the General Data Protection Regulation (GDPR) all of which were operational prior to the effective date of this legislation.

4. **Annual Financial Statements, Solvency II Audit and Business Continuity Planning**

Annual Financial Statements

The RAC approved the external audit plan for the year end at its meeting in September 2018 and confirmed focus on the following areas of audit emphasis:

- Assumptions and methodology used in estimating claims which are incurred but not reported (IBNR) and incurred but not enough reported (IBNER)
- Valuation of liabilities in relation to large loss claims.

As well as these specific risks, the audit covers mandatory areas which are assumed to present a significant risk. These include the risk of fraud in revenue recognition and the risk of management override of controls.

The RAC met in November 2018 to receive a detailed presentation from PWC in respect of the audited Financial Statements for the year ended 30 September 2018. Non-Executive members of the Committee and the independent Chairman of the Board also met in private with 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.

Solvency II Audit

Our external auditors, PwC, have performed an audit of the SFCR in accordance with the PRA Supervisory Statement SS11/16 "Solvency II: external audit of the public disclosure requirement". A copy of the SFCR and the independent auditors' report is available from our website.

Whilst the scope of this audit is unchanged from last year PRA have confirmed the removal of the audit requirement in respect of the public Solvency II reporting of smaller insurers for financial years ending after 15 November 2018. This means the exemption applies to Cornish Mutual for the year ended 30 September 2019.

Business Continuity Planning (Disaster Recovery)

The Committee received reports on the testing of disaster recovery plans and noted that further improvements in systems resilience and back-up had been developed during the year incorporating the PFK Littlejohn audit recommendations. The RAC also reviewed the "fail back" solutions to ensure sufficiency to restore operational capability. All relevant staff involved in the recovery process can be linked from their homes to the Company's systems in Truro and its back-up facilities now housed at the Company's site near Tiverton. Business continuity tests are conducted at and between both sites to ensure the required security and resilience is met. The adverse weather conditions at the start of 2018 provided a real opportunity to test this resilience and identify further actions that can be taken.

Material Risks and Future Risk Strategy

The risks which the Board judges to be material to achievement of the Company's objectives 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 disaster or unexpected events;
- Adverse investment market conditions increase financial support required for closed defined benefit pension fund.
- Volatility of the expense base

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 strong emphasis on selecting individuals with the right attitudes to customers when recruiting staff, and providing technical training and development which is recognised as outstanding.

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

The Board has well established policies for the acceptance and control of underwriting risk, and monitors the reinsurance market to optimise its reinsurance programme. Reinsurance arrangements are reflected in the solvency capital requirement of the Company and the RAC examines reinsurance protections bi-annually and treats the availability of cost effective reinsurance as one of the principal risks. A comprehensive review of reinsurance arrangements and providers will be undertaken at the end of 2018.

The Board requires Directors to bring a wide range of diverse skills and experience. While 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 and to attract and retain suitable Non-Executives is a significant responsibility of the Remuneration and Nominations Committee.

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

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

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

The Committee regularly monitors pensions funding risk during the inter valuation period. During the last financial year the Board authorised deficit recovery contributions as required by the Schedule of Contributions and the Company is able to support the ongoing recovery contributions from normal trading results. Independent assessors have confirmed that the covenant between the Company and the pension fund is good. As a result of discussions with the Company at the last full valuation, the Scheme's investment strategy allocates just under one third of the Scheme's uninsured assets to Liability Driven Investment (LDI) holdings in order to reduce funding volatility. The revised investment strategy, coupled with the additional company contributions has resulted in the Scheme being 100.8% funded on a technical provisions basis at this financial year end.

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, whilst delivering continuous improvement in the high level of personal service and prompt claims settlement to Members. The opinion of the RAC is informed by the Committee's consideration of the reports from Internal Audits and the Validation and Support Team Continuous Improvement Programme, from executive management who have responsibility for the development and management of the internal control framework and by the External Auditors audit examination of the Annual Report and Financial Statements and accompanying management letter.

Paul J Davies,
Chairman, Risk and Audit Committee

11 December 2018

THE CORNISH MUTUAL ASSURANCE COMPANY LIMITED | YEAR ENDED 30 SEPTEMBER 2018

Introduction

The Investment and Capital Management Committee (ICMC) provides oversight of the Company's investment assets in order to ensure that those investments are appropriately managed.

As a mutual, the net capital of the Company is represented by our Members' Funds. These funds are the cushion that allows the Company to continue to operate in severe circumstances, such as following a natural catastrophe, a major fall in equity and bond values, or a combination of both. The Committee is responsible for protecting the assets and growing them over time through the achievement of positive investment returns.

This report covers the activity of the ICMC in respect of the financial year ended 30 September 2018. The Terms of Reference of the Committee are published as Appendix 4 of the Board Charter.

Responsibilities of the Committee

The key role of the ICMC is to monitor Cornish Mutual's investment portfolio and Solvency II capital sufficiency on a regular basis. The Committee is guided by the Company's policies and strategy for investment, liquidity and capital management. In addition, the Committee regularly monitors the composition and performance of our investment holdings, this extends to the monitoring of credit risk relating to cash and other short-term instruments. The Committee seeks to ensure that assets are managed so as to avoid any undue concentration risk arising from unintended investment in the same funds as those held to meet the Company's pension liabilities.

Membership

The Committee is elected annually following the Company's AGM which is held in March. During the year ended 30 September 2018 the Committee membership and attendance was as shown in the Governance report on page 19. The Board requires the Committee to be independent non-executive directors. All Directors of the Board are invited to attend meetings of the Committee. The Committee saw a change of Chairman during the Financial Year with Charles Pears assuming this role following the departure of Jerry Davison. Richard Lane became a member of the Committee.

Review of Activity

Solvency II and Own Risk and Solvency Assessment (ORSA)

As more fully discussed in the Risk and Audit Committee report, the Company's Own Risk and Solvency Assessment (ORSA) describes its business strategy, solvency position and capital management process, and considers the risks associated with those on a continuous basis.

The ORSA process includes calculating the levels of capital required to operate in line with Solvency II, both the externally reportable Solvency Capital Requirement (SCR) and an internal measure, the Economic Capital Assessment (ECA). As part of this assessment, each class of investment asset (such as property, bonds and stocks) held by insurance companies is evaluated to calculate the effect of certain risks, for example a serious downturn in the stock market, on its capital.

As a general insurer with short-term claim liabilities and holding relatively simple investments to meet these liabilities, Cornish Mutual uses the 'standard formula' for making these capital calculations. The capital requirements arising from this process should ideally demonstrate a realistic and consistent capital surplus relative to the investment market risks taken by an insurer.

The ICMC monitors these measures along with investment and market risks, to ensure that overall risk levels are understood and maintained within defined limits. The Company forecasts income and expenditure streams 5 years ahead and conducts deterministic stress tests on the level of capital (Members' Funds) remaining under various extreme conditions.

The Committee has been satisfied by the capital implications arising from the investment assets held and by the steps taken to reduce overall the levels of market risk Cornish Mutual is exposed to.

Fund Managers

Fund Manager Selection

The Committee has a duty to review the performance of Cornish Mutual's investment managers every three years. Since April 2015, Insight Investment, a major British firm of fund managers based in London and owned by BNY

Mellon, has acted as our principal fund manager. During the financial year we completed the transition of the residual assets previously managed by Quilters to Insight Investment so moving to a basis where Insight is our sole investment manager. Insight manages a total portfolio of more than £600 billion for mainly pension and insurance clients. Insight has performed well in providing us with the specialist advice and the appropriate reporting needed under the Solvency II regulatory regime.

The Committee formally commenced the review of the investment manager in June 2018 with a focus on the cost, performance and suitability of the manager to continue to meet our requirements. The key criteria we will review include the following:

- Providing confidence in their ability to continue delivering positive investment returns while managing investment risks and volatility impacting our portfolio
- Helping us to ensure/demonstrate that we follow the 'prudent person principle' in asset selection, such that the portfolio as a whole is managed in the best interests of Members and in accordance with Solvency II
- Demonstrating cost-effective delivery of the investment management and related reporting activities
- Demonstrating appropriate levels of internal controls and governance on an ongoing basis

Upon the completion of the review, the ICMC will make a recommendation to the Board. This review is part of a prudent monitoring process and does not reflect any concerns on the part of the ICMC who have already felt able to endorse the investment strategy adopted and confirmed that performance has been within expected parameters to date.

Fund Manager Mandate

The Committee determines which collective investment schemes to invest in and monitors these over time to ensure the overall Cornish Mutual portfolio is appropriately invested. This includes instructing the re-balancing of investments, between collective investment schemes, from time to time. The holdings within the collective investment schemes are in turn managed by Insight and they are responsible for the day to day management of these. Each collective investment scheme has specific objectives and investment guidelines which apply to all investors in that scheme. These guidelines require Insight to invest the funds with the objectives of:

- Protecting capital
- Achieving appropriate returns commensurate with the risks taken
- Managing draw down risk
- Avoiding concentration risk
- Providing suitable liquidity, and
- Using a diverse mix of assets.

Overall the Committee makes investments in collective investment schemes it believes will deliver positive returns while minimising the risk of losses in the medium term.

Investment Portfolio

As at 30 September 2018 the total value of investment assets was £31.35 million, analysed as follows:

	£m
Collective investments funds	29.08
Freehold property partially occupied	2.27
Total investments	**31.35**

During the financial year the majority of the portfolio was invested in the Insight Broad Opportunities Fund. The fund is a multi-asset fund with a wide-ranging mix of investment classes and assets. This fund aims to deliver positive returns over the medium term while minimising losses. The manager has freedom to make significant asset allocation decisions. The Fund targets a return based on a percentage in excess of LIBOR (a technical measure for the return expected from cash holdings), and is measured against its own absolute return targets as opposed to a benchmark.

In October 2017 we finalised the liquidation of the remaining Equities portfolio managed by Quilters and commenced the transfer of the assets to appropriate collective investment funds managed by Insight. In addition to the Insight Broad Opportunities fund, in January 2018 we invested £6.0m into the Insight managed BNY Mellon Absolute Return Bond Fund. This fund seeks to provide a positive absolute return in all market conditions, over a rolling 12-month period, by investing primarily in debt and debt-related securities and instruments located worldwide and in financial derivative instruments relating to such securities and instruments. The Fund targets a return based on a percentage in excess of 3 Months EURIBOR (a further technical measure for the return expected on cash holdings).

We undertook this investment in order to gain exposure to a broader range of investment strategies and fund manager views within Insight. As a result, all of our holdings of long-term investment funds have a focus on capital preservation and the management of risk. The Committee recognises and has actively sought to reduce the overall level of risk and volatility our investment portfolio is exposed to. While this is expected to reduce the return profile of the portfolio moving forwards we consider this to be appropriate given the importance of preserving Member's Funds while growing these in real terms.

As part of maintaining liquidity we hold specific liquidity funds within our collective investment funds. The Company maintains sufficient cash balances to meet short-term liabilities.

Economic outlook monitoring

As part of its remit, the ICMC regularly monitors the UK and global economic and business outlook, and discusses various forecasts, with the investment managers, at each Committee meeting. Insight also provides advice and updates as required, for example in response to significant market changes.

The political climate, both in the UK and overseas, can be characterised by high-levels of uncertainty. In the UK the outlook for BREXIT has been unclear with the potential to significantly impact the UK bond and stock markets. Overseas we continue to see the US re-structure its trading relationships with other major economies such as China. The fallout of these changes is difficult to predict but is likely to be amplified in an environment where stock markets have been high, debt levels remain stubbornly high and interest rates low in many major economies. This tension between political uncertainty and a broadly positive but fragile economic backdrop is a key driver to the management of our investment assets.

We continue to believe that the right approach for Cornish Mutual is to invest in funds where the manager has the freedom to respond dynamically to the economic outlook including asset allocation decisions. This includes having the ability to invest in instruments able to perform positively when markets are also falling and so provide some protection in the event of a market downturn or increased volatility.

Charles Pears

Chairman, Investment and Capital Management Committee

11 December 2018

Introduction

The Remuneration & Nominations Committee conducts its business in accordance with the published Terms of Reference, the latest version of which may be found at Appendix 5 of the Board Charter available on the company website at www.cornishmutual.co.uk. The annual review of the Terms of Reference was undertaken by the Board at its 24th July 2018 meeting. This report should be read in conjunction with the Board Report on Corporate Governance.

Responsibilities of the Committee

In respect of remuneration, the Committee's purpose is to oversee the design and implementation of Cornish Mutual's remuneration policies and practices, including the remuneration of the Chairman of the Board, Executive Directors, other members of the Executive Team and Non-Executive Directors (NEDs) and to make recommendations to the Board for approval. In respect of nominations, to drive the succession planning process for the Board by identifying suitable candidates through a formal, rigorous and transparent procedure, nominating those deemed most suitable for appointment to the Board for vacancies to be filled as appropriate.

Membership

The Committee is elected annually by the Board following the Company's AGM which is held in March. The Committee membership and attendance was as shown in the Governance Report.

The Committee is comprised solely of Non-Executive Directors although the Board Chairman, Managing Director and Company Secretary regularly attended meetings during the year. All other Directors of the Board are invited to attend meetings of the Committee, but only those appointed as members may vote on Committee reserved matters.

At the Annual General Meeting we said farewell to Jerry Davidson who has given many years of invaluable service to the Company in several capacities, and we are grateful for the opportunity to record our thanks for his wise counsel to this Committee during his tenure. We were pleased to welcome Sue Turner, who brings a wealth of experience in member focussed organisations and look forward to the different perspectives she will bring to the Committee.

The Committee meets without the Executive attendees as and when the Committee Chairman considers it appropriate to do so.

Neither the Board Chairman, nor the Managing Director, has any input or vote on their own remuneration or any connected matter.

Key Activities

In the year to 30 September 2018, the Committee met three times to deal with all matters duly scheduled. These included:

- Review of the Company's remuneration policy, including pay and benefits
- Consideration of external benchmarking and related information
- Recommending changes to Executive's remuneration
- Considering changes to the Chairman's and NEDs' remuneration
- Review of the expenses signing policy
- Review of HR, Training and Competence Policy
- Consideration of the results of a Board Skills Audit
- Review of Risk Register risks relating to remuneration and employment
- Review of the time commitment required from NEDs
- Consideration of Board composition and review of succession planning
- Consideration of recruitment requirements and initiating process as necessary

In accordance with best practice and The Annotated UK Corporate Governance Code, the Committee conducted an annual review of its effectiveness as part of a wider Board evaluation.

Remuneration Matters

Directors' Remuneration Report

The Committee, and all members of the Board, are acutely aware of the public debate regarding the quantum of executive pay generally and recognise that sensitivities may surround what the Company considers appropriate rewards for Board members. To quote from the Directors' Remuneration Policy, overwhelmingly approved by Members at the Annual General Meeting held in March 2018, "in order to deliver value and service to Members, the Company must have credible leaders with professional expertise in financial services. Technical proficiency alone is not enough; our colleagues are also chosen for their personal values and how closely these correlate with the values of Cornish Mutual. Therefore, the remuneration the Company offers must be competitive within the financial services sector, commensurate with the complexity of the role and reasonable and responsible in light of our commitment to mutuality in order to attract and retain skilled and expert senior people".

Members will be aware of the report into remuneration prepared by Peoplecare (Europe) Ltd. in 2015. The final tranche of recommendations proposed in that report, phased over a three-year period, has now been implemented. To ensure that remuneration meets the criteria set out in the Directors' Remuneration Policy, the Committee will keep under regular scrutiny the levels of remuneration paid to executive and non-executive directors in the industry generally and especially those who are also members of The Association of Financial Mutuals. Perusal of the remuneration reports of other insurers, many of which are available on-line, can be illuminating in this respect, but the Committee will also seek expert, independent advice on a regular basis.

The Board believes that the remuneration packages in place for senior executives, whilst still somewhat below those that may be found elsewhere within the peer group, are fair and will be sufficient to attract suitable, high calibre candidates, in the event of executive vacancies arising within the company.

Remuneration of NEDs must reflect the time commitment required and responsibilities of the role: both of these have increased substantially in recent years leading to a corresponding uplift in fees. As with executive remuneration, the current fees in place are lower than those that may be found elsewhere in the peer group. However, at the recruitment process for new NED's held in January 2018, recruitment consultants Wheale, Thomas, Hodgins PLC were able to deliver an excellent long list of potential candidates at the current rates. In view of this, the Board resolved that NED remuneration would remain unchanged until the next review due in 2019.

Full details of remuneration paid to all directors can be found in the Board report on Corporate Governance.

The Company continues to embrace all aspects of diversity and will continue to keep the pay structure under review for discrepancies. There are no instances where there is a gender related difference in salary or benefits for work of the same type.

During the year there has been considerable comment in the media regarding the gender pay gap, an equality measure that shows the difference in average earnings between women and men. Reporting of the gender pay gap is a legal requirement for organisations with over 250 employees and provides employers with the opportunity to identify and address any issues that may be revealed. In spite of not being legally required to comply with reporting, due to having fewer than 250 staff, the Board took the view that to carry out the exercise was nonetheless good practice, and full details, in accordance with the appropriate regulations, were provided to The Association of Financial Mutuals as part of the compliance programme of that organisation.

The Committee considered the latest calculation of the gender pay gap noting the position. With circa 100 employees, the numbers are sensitive to changes by any one individual. Overall, males are paid more than females, but the differentials within the quartiles are smaller and more nuanced. Women dominate the lowest paid quartile (25 women v 2 males) while it reverses in the top (5 women v 21 males). On the latest salary figures, women earn more than men on average in both the top and bottom quartiles.

The Committee and Board will continue to take actions to address any gender imbalances identified wherever possible.

The premise of the Board is to pay staff on the basis of benchmarked roles using data supplied by Xpert HR surveys median salaries information. Board policy is to pay salaries that are comparable with similar roles within the UK.

Nominations Matters

Board Structure and Appointments

The Board Chairman annually holds review meetings with all Directors during which he gathers opinions regarding the skills required on the Board, the extent to which they are met, and the size and composition of the Board. The results are considered by the Committee as part of its regular skills audit reviews.

As a consequence of these reviews, and following a recommendation from the Managing Director, supported by the Board Chairman, Paul Mahon was co-opted to the Board with effect from 1st May 2018, and a proposal will be made for his formal appointment as a Director at the Annual General Meeting. Further details appear in the Chairman's report and a brief biography of Paul can be found on page 21.

Following the retirements of Graham Shearn in March 2017 and Jerry Davidson in March 2018, Anthony Hodgins of Wheale, Thomas, Hodgins PLC was contracted to carry out a recruitment process for suitable replacements. As noted previously, the Board has been aware that it has had no female members since 2015, so a decision was taken to use the recruitment process for new NEDs as an opportunity to correct this. The short list of six candidates included four women. All candidates were scored independently by members of the interviewing panel and, as noted above, we were pleased to welcome one of the women, Sue Turner, to the Board and this Committee. Brief biographies of her, and the other new appointee Richard Lane, appear in the Board section of the Report on Corporate Governance.

Corporate Governance

In July 2018, The Financial Reporting Council issued the latest revision to The UK Corporate Governance Code supported by a revised "Guidance on Board Effectiveness". As has been practice in the past, we anticipate that The Association of Financial Mutuals will produce a version of The Code, annotated where appropriate, for the guidance of mutual organisations.

The new Code applies to accounting periods beginning on, or after, 1st January 2019 and includes a widening of the remit of Nomination and Remuneration Committees.

The main changes include:

Succession and diversity: To ensure that boards have the right mix of skills and experience, constructive challenge and to promote diversity, the new Code emphasises the need to refresh boards and undertake succession planning. Boards should consider the length of term that chairs remain in post beyond nine years. The new Code strengthens the role of the nomination committee on succession planning and establishing a diverse board. It identifies the importance of external board evaluation for all companies. Nomination committee reports should include details of the contact the external board evaluator has had with the board and individual directors.

Remuneration: To address public concern over executive remuneration, the new Code emphasises that remuneration committees should take into account workforce remuneration and related policies when setting director remuneration. Importantly, formulaic calculations of performance-related pay should be rejected. Remuneration committees should apply discretion when the resulting outcome is not justified.

The Committee will give due consideration to these matters, along with those making up its current remit, during the forthcoming year.

Roger Cawse
Chairman, Remuneration and Nomination Committee

11 December 2018

Independent Auditor’s Report

Independent auditors’ report to the members of The Cornish Mutual Assurance Company Limited

Report on the audit of the financial statements

Opinion

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 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared 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); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the “Annual Report”), which comprise: the statement of financial position as at 30 September 2018; the statement of profit and loss account, the statement of comprehensive income, the statement of cash flows, the statement of changes in members’ funds for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Risk and Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors’ 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.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC’s Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC’s Ethical Standard were not provided to the Company.

Other than those disclosed in note 15 to the financial statements, we have provided no non-audit services to the Company in the period from 1 October 2017 to 30 September 2018.

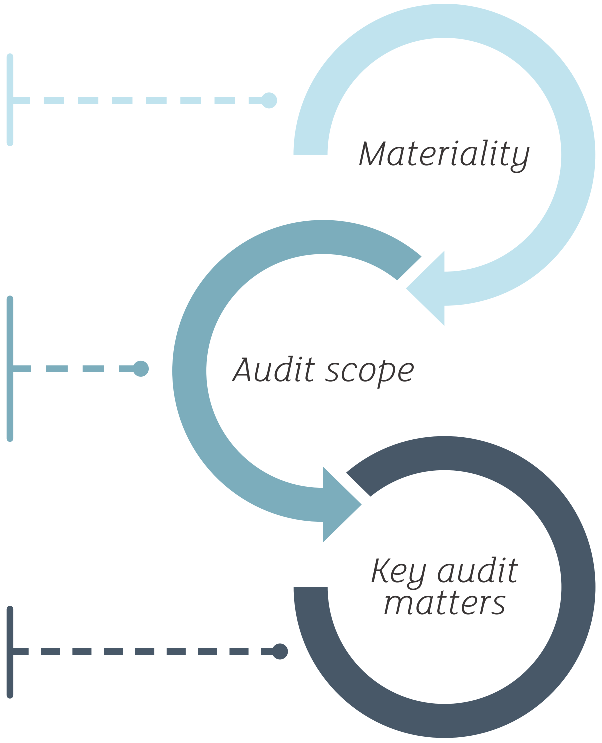
Our audit approach

Overview

Overall group materiality: £233,837, based on 1% of members' funds.

We have performed a complete audit of the balances making up The Cornish Mutual Assurance Company Limited financial statements.

Assumptions and methodology used in estimating IBNR and IBNER claims.



The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, 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 or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Company's financial statements, including, but not limited to, the Companies Act 2006, the Financial Conduct Authority and the Prudential Regulatory Authority. Our tests included, but were not limited to, review of financial statement disclosures, review of board minutes, enquiries of management and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above 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 would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Assumptions and methodology used in estimating IBNR and IBNER claims The financial statements include liabilities for the estimated cost of settling claims associated with general insurance products written by Cornish Mutual Assurance Company Limited. The claims outstanding provision as at the yearend of £14.2m 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 2018 as well as those claims that have been incurred but not reported ('IBNR') and those that are still developing ('IBNER'). The valuation of the IBNR and IBNER liabilities are particularly judgemental as they are dependent on a number of assumptions including the number of claims that will ultimately be received and how much these claims will settle for. Management have based their estimate of the provision at the yearend by using historical data of how claims have been settled and their experience of the industry. We focused our audit procedures on the methodology and assumptions adopted (for example the likelihood of a large claim developing adversely). Small changes in these can result in material changes in the valuation. Refer to page 25 (Section 4 of the Report of the Risk and Audit Committee), page 49 (Accounting policies), page 54 (Sources of estimation uncertainty) and page 55 (Note 5 to the financial statements).	The audit procedures we have performed to address this key audit matter are as follows: We understood and assessed the relevant controls in relation to the reserving process; We used actuarial specialists to independently estimate the best estimates of the best estimates of large and attritional claims reserves and evaluate differences from management's estimates. This was done using historical claims data; We considered the appropriateness of management's methodology and assumptions and performed recalculations of specific IBNR and IBNER elements where independent estimates were not appropriate to calculate; We compared the best estimate reserve to the total reserves held to assess the level of prudence included within the reserves; and We performed testing over management's ability to make reasonable judgements in previous accident years by comparing historical reserves to settled claims. Through the procedures detailed above and having considered the specific nature and circumstances of Cornish Mutual's business, we have found the value of IBNR and IBNER reserves estimated by management to be in line with the stated accounting policy and reasonable in the context of the inherent uncertainty in reserving for claims.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

We have performed a full audit of the balances making up The Cornish Mutual Assurance Company Limited. Our scoping is risk based and considers the level of materiality and those items which contain significant judgements and estimates. Our audit is largely substantive in nature, however we gain an understanding of the controls and processes in place across the financial reporting process as part of our planning assessment.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

	Company financial statements
Overall materiality	£229,461 (2017: £222,145)
How we determined it	1% of members' funds
Rationale for benchmark applied	We believe members' funds represents the most appropriate benchmark as it best reflects the underlying interests of the members.

We agreed with the Risk and Audit Committee that we would report to them misstatements identified during our audit above £11,473 (2017: £11,107) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligations	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and the Report of the Directors', we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06) and ISAs (UK) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors' for the year ended 30 September 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors'. (CA06)

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

As a result of the Directors' reporting on how they have applied the UK Corporate Governance Code - An Annotated version for mutual insurers (the "Code"), we are required to report to you if we have anything material to add or draw attention to regarding:

- The Directors' confirmation on page 11 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 14 of the Annual Report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report in respect of this responsibility.

Other Code Provisions

As a result of the Directors' reporting on how they have applied the Code, we are required to report to you if, in our opinion:

- The statement given by the Directors, on page 14, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Company obtained in the course of performing our audit.
- The section of the Annual Report on page 29 describing the work of the Risk and Audit Committee does not appropriately address matters communicated by us to the Risk and Audit Committee.
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, by the Association of Financial Mutuals, for review by the auditors.

We have nothing to report in respect of this responsibility.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 17, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they 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.

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Risk and Audit committee, we were appointed by the members on 16 June 2017 to audit the financial statements for the year ended 30 September 2017 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 30 September 2017 to 30 September 2018.

Sue Morling (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
11 December 2018

Financials

STATEMENT OF PROFIT AND LOSS	Note	2018 £	2017 £
TECHNICAL ACCOUNT - GENERAL BUSINESS			
Gross premiums written		23,436,672	22,313,876
Outward reinsurance premiums		(12,892,280)	(11,928,495)
Written premiums, net of reinsurance		10,544,392	10,385,381
Change in gross provision for unearned premiums		(435,838)	(809,853)
Change in provision for unearned premiums, reinsurers share		462,444	608,862
Change in net provision for unearned premiums		26,606	(200,991)
Earned premiums, net of reinsurance	7	10,570,998	10,184,390
Other technical income	10	2,820,673	3,503,093
Total technical income		13,391,671	13,687,483
Gross claims paid		13,498,900	11,335,330
Reinsurers' share of claims paid		(6,636,005)	(5,470,598)
Claims paid net of reinsurance		6,862,895	5,864,732
Change in gross provision for claims		327,196	737,258
Change in reinsurers' share		(37,412)	283,656
Change in net provision for claims		289,784	1,020,914
Claims incurred net of reinsurance	8	7,152,679	6,885,646
Net operating expenses		5,849,844	5,566,239
Change in equalisation provision	26	0	(69,294)
Total technical charges		13,002,523	12,382,591
BALANCE ON THE TECHNICAL ACCOUNT		389,148	1,304,892

STATEMENT OF PROFIT AND LOSS	Note	2018 £	2017 £
NON-TECHNICAL ACCOUNT			
Balance on the general business technical account		389,148	1,304,892
Investment Income	14	698,601	2,021,763
Investment expenses and charges	14	(116,215)	(117,018)
Other charges	17	(980,574)	(859,463)
(LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		(9,040)	2,350,174
Tax credit / (charge) on profit on ordinary activities	18	176,841	(39,516)
PROFIT FOR THE FINANCIAL YEAR AFTER TAX		167,801	2,310,658

STATEMENT OF COMPREHENSIVE INCOME	Note	2018 £	2017 £
PROFIT FOR THE FINANCIAL YEAR AFTER TAX		167,801	2,310,658
Revaluation of property		0	265,000
Fair value adjustment to subsidiary carrying value	22	(312,453)	1,345
Remeasurement of net defined benefit pension scheme		(293,004)	(86,260)
Deferred tax on actuarial change in the pension scheme		0	454,529
OTHER COMPREHENSIVE (LOSS) / GAIN FOR THE YEAR NET OF TAX		(605,457)	634,614
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR		(437,656)	2,945,272
ATTRIBUTABLE TO THE OWNERS OF THE COMPANY		(437,656)	2,945,272

The accounting policies and notes on pages 59 to 84 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION	Note	2018 £	2017 £
ASSETS			
INTANGIBLE ASSETS			
Other intangible assets	19	79,959	88,600
		79,959	88,600
INVESTMENTS			
Land and buildings	20	2,270,000	2,270,000
Other financial investments	21	29,075,720	28,983,772
Investment in subsidiary undertaking	22	3	312,456
		31,345,723	31,566,228
REINSURERS SHARE OF TECHNICAL PROVISIONS			
Provision for unearned premium	7	6,500,267	6,037,822
Claims outstanding	23	6,487,026	6,449,613
		12,987,293	12,487,435
DEBTORS			
Debtors arising out of direct insurance operations - policyholders		5,683,152	5,432,722
Debtors arising out of reinsurance operations		3,318,003	2,766,028
Other debtors	24	0	18,960
		9,001,155	8,217,710
OTHER ASSETS			
Tangible assets	25	330,488	213,297
Stock		8,422	8,552
Cash at bank and in hand		647,821	1,478,268
		986,731	1,700,117
PREPAYMENTS AND ACCRUED INCOME			
Prepayments and accrued income		333,367	561,122
TOTAL ASSETS		54,734,228	54,621,212

STATEMENT OF FINANCIAL POSITION		2018	2017
	Note	£	£
LIABILITIES			
CAPITAL AND RESERVES			
Members' funds		22,946,065	23,383,720
GROSS TECHNICAL PROVISIONS			
Provision for unearned premium	7	11,723,764	11,287,926
Claims outstanding	23	14,171,508	13,844,311
Equalisation provision	26	0	0
		25,895,272	25,132,237
PROVISION FOR LIABILITIES AND CHARGES			
Provision for taxation	27	0	176,841
Provision for pensions	29	0	0
		0	176,841
CREDITORS			
Arising out of reinsurance operations		3,340,607	3,130,097
Other creditor including taxation and social security	30	1,017,877	1,352,696
		4,358,484	4,482,793
ACCRUALS AND DEFERRED INCOME			
Accruals and deferred income		1,534,407	1,445,621
TOTAL LIABILITIES		54,734,228	54,621,212

The accounting policies and notes on pages 59 to 84 form an integral part of these financial statements.

Approved by the Board of Directors on 11 December 2018.

I J Pawley
Director

P S Beaumont
Director

A Goddard
Managing Director

	Profit and loss	Total
STATEMENT OF CHANGES IN MEMBERS' FUNDS	£	£
Balance as at 1 October 2016	20,438,448	20,438,448
Profit for the financial year after tax	2,310,658	2,310,658
Other comprehensive (loss) / gain for the year	634,614	634,614
Total comprehensive income for the year	2,945,272	2,945,272
Balance as at 30 September 2017	23,383,720	23,383,720
Balance as at 1 October 2017	23,383,721	23,383,721
Profit for the financial year after tax	167,801	167,801
Other comprehensive (loss) / gain for the year	(605,457)	(605,457)
Total comprehensive income for the year	(437,656)	(437,656)
Balance as at 30 September 2016	22,946,065	22,946,065

STATEMENT OF CASH FLOWS	2018 £	2017 £
NET CASH GENERATED FROM OPERATING ACTIVITIES	(726,648)	606,679
CASH FLOW FROM INVESTING ACITVITIES		
Interest Received	169	851
Dividends Received	0	162,369
Tax deducted at source	0	27,383
Rental income	122,303	140,637
Net cash invested in financial investments	55,498	(193,232)
Payments to acquire tangible fixed assets	(281,769)	(71,525)
	(103,799)	66,483
NET (DECREASE) / INCREASE IN CASH AT BANK AND IN HAND	(830,447)	673,162
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	1,478,268	805,106
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	647,821	1,478,268

RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES	2018 £	2017 £
Transfer from Technical Account	389,148	1,304,892
Other Charges	(980,574)	(859,463)
OPERATING (LOSS)/PROFIT	(591,426)	445,429
Increase in outstanding premiums	(250,430)	(800,732)
Increase in debtors and accrued interest	(129,534)	(42,856)
Decrease in claims outstanding	289,784	1,020,914
Increase in reinsurance creditors	202,427	158,831
Increase in reinsurance debtors	(542,206)	(58,014)
Decrease / (Increase) in stock	130	2,241
Increase in other creditors	128,530	340,836
(Decrease) / Increase in equalisation provision	0	(69,294)
(Decrease) / Increase in provision for unearned premium	(26,609)	200,991
Currency translation	0	980
Depreciation	173,220	187,357
Adjustment for fair value revaluation	312,470	0
Adjustment for pension funding	(293,004)	(780,004)
NET CASH GENERATED FROM OPERATING ACTIVITIES	(726,648)	606,679

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Cornish Mutual Assurance Company Limited ("the Company") transacts general insurance business in the UK. The 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 principal 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 Group 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 in the Strategic Report.

Basis of consolidation

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 14.

Insurance contracts

The Group 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.

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. Dividends are included as investment income on the date that the shares are quoted ex-dividend and include imputed tax credits. 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.

THE CORNISH MUTUAL ASSURANCE COMPANY LIMITED | YEAR ENDED 30 SEPTEMBER 2018

3. ACCOUNTING POLICIES (continued)

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.

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 are 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

IIntangible 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; and
- 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:

Motor vehicles	4 years
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.

3. ACCOUNTING POLICIES (continued)

Investments

Other financial investments are stated at current value in the balance sheet calculated as the mid-market value on the balance sheet date. The investment in subsidiary undertakings is stated at cost.

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. 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 are 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 £14,171,508 (2017: £13,844,312).

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 advices, 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"), which 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 26 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 29 for the disclosures relating to the defined benefit pension scheme. The carrying value of the net scheme liability is £nil (2017: £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 and amount of 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 monthly 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. The Company has also ensured that sufficient reinsurance arrangements are in place and has an active claims handling team.

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
2018			
Motor	7,176	2,195	4,981
Property	5,138	3,274	1,864
Commercial Packages	1,858	1,019	839
Total	14,172	6,488	7,684
2017			
Motor	8,224	2,628	5,596
Property	3,654	2,548	1,106
Commercial Packages	1,966	1,273	693
Total	13,844	6,449	7,395

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	2013	2014	2015	2016	2017	2018	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of ultimate claims costs:							
At end of reporting year	12,569	15,489	11,637	12,609	13,602	15,594	
One year later	11,838	13,826	10,299	11,504	12,780	-	
Two years later	12,074	14,446	10,524	11,261	-	-	
Three years later	12,013	13,852	10,305	-	-	-	
Four years later	11,652	13,742	-	-	-	-	
Five years later	11,419	-	-	-	-	-	
Current estimate of cumulative claims	11,419	13,742	10,305	11,261	12,780	15,594	
Cumulative payments to date	(11,354)	(13,507)	(9,703)	(9,848)	(9,365)	(8,546)	
Liability recognised in the balance sheet	64	234	603	1,414	3,415	7,049	12,779
Liability in respect of earlier years							1,393
Provision in balance sheet							14,172

Table includes rounding differences

Claims incurred and outstanding net							
Reporting year	2013	2014	2015	2016	2017	2018	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of ultimate claims costs:							
At end of reporting year	-	2,666	6,629	7,463	7,590	8,047	
One year later	-	2,505	6,346	6,565	7,135	-	
Two years later	-	2,495	6,464	6,319	-	-	
Three years later	-	2,464	6,257	-	-	-	
Four years later	-	2,562	-	-	-	-	
Five years later	-	-	-	-	-	-	
Current estimate of cumulative claims	-	2,562	6,257	6,319	7,135	8,047	
Cumulative payments to date	-	(2,430)	(5,902)	(5,645)	(5,406)	(4,502)	
Liability recognised in the balance sheet	-	131	355	674	1,729	3,544	6,433
Liability in respect of earlier years							1,251
Provision in balance sheet							7,684

Table includes rounding differences

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK continued overleaf

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

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 table below 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	1,908	20%	382	(382)	153	(153)
Property	3,646	15%	547	(547)	328	(328)
Commercial Packages	1,260	15%	189	(189)	113	(113)
Total	6,814		1,118	(1,118)	594	(594)
Uncorrelated diversified			693	(693)	379	(379)

The £6,814k makes up 48% of the total claims provision of £14,172k and 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 4.8% gross loss ratio (2017: 5.4%) and 5.6% (2017: 5.6%) 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 3.0% (2017: 3.4%) effect on gross loss ratios and 3.6% (2017: 3.3%) on net loss ratio.

Because 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 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.

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. An amount of £527k (2017: £527k) gross and £316k (2017: £316k) net is held in provisions in relation to large claims in addition to the amounts identified in the table above. Given that the estimate is weighted by probability, this does mean that should a very large claim develop in a particular year, the provision held may not be sufficient at a gross level in particular.

This 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 claims 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 reinsurers quarterly in arrears with the claims being paid out of the premiums which we collect.

Our reinsurers', as well as the retrocessionaires', Standard and Poor's ratings are monitored and their financial strength is reviewed annually.

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.

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK continued overleaf

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

MATURITY PROFILES					
September 2018	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	7,684	3,227	2,228	1,076	1,153
Creditors	1,018	1,018	-	-	-

September 2017	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	7,395	3,106	2,145	1,035	1,109
Creditors	1,353	1,353	-	-	-

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 from 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 £24.6m.

6. SEGMENTAL INFORMATION

2018	Motor	Property	Accident & Health	Liability	Marine, Aviation & Transport	Total
	£	£	£	£	£	£
Gross premiums written	13,053,713	7,231,727	140,956	3,002,567	7,709	23,436,672
Gross premiums earned	12,798,627	7,068,091	140,773	2,980,965	12,378	23,000,834
Gross claims incurred	(6,863,340)	(4,983,564)	(108,206)	(1,868,972)	(2,014)	(13,826,096)
Reinsurance claims recoverable	2,576,370	3,007,011	2,143	1,086,684	1,209	6,673,417
Operating expenses	3,804,394	2,107,625	41,080	875,073	2,247	6,830,418

2017	Motor	Property	Accident & Health	Liability	Marine, Aviation & Transport	Total
	£	£	£	£	£	£
Gross premiums written	12,327,638	6,878,650	137,837	2,956,227	13,525	22,313,876
Gross premiums earned	11,696,855	6,725,024	139,720	2,928,711	13,713	21,504,023
Gross claims incurred	(6,789,929)	(3,757,682)	(112,056)	(1,413,602)	681	(12,072,588)
Reinsurance claims recoverable	1,553,474	2,695,140	0	938,922	(594)	5,186,942
Operating expenses	3,549,976	1,980,837	39,693	851,301	3,895	6,425,702

Operating expenses include administrative expenses and other charges.
Other charges were not included last year but the comparative has been updated to reflect the change in disclosure.

7. EARNED PREMIUMS NET OF REINSURANCE

	Gross	Reinsurance	Net
2018	£	£	£
Premiums receivable	23,436,672	12,892,280	10,544,392
Unearned premiums carried forward	11,723,764	6,500,267	5,223,497
Unearned premiums brought forward	(11,287,926)	(6,037,822)	(5,250,104)
Increased / (Decrease)	(435,838)	(462,445)	26,607
Premiums earned	23,000,834	12,429,835	10,570,999

2017	£	£	£
Premiums receivable	22,313,876	11,928,495	10,385,381
Unearned premiums carried forward	11,287,926	6,037,822	5,250,104
Unearned premiums brought forward	(10,478,073)	(5,428,960)	(5,049,113)
Increased / (Decrease)	(809,853)	(608,862)	(200,991)
Premiums earned	21,504,023	11,319,633	10,184,390

8. CLAIMS INCURRED NET OF REINSURANCE

	Gross	Reinsurance	Net
2018	£	£	£
Claims paid	13,498,900	6,636,005	6,862,895
Outstanding claims carried forward	14,171,508	6,487,026	7,684,482
Outstanding claims brought forward	(13,844,311)	(6,449,613)	(7,394,698)
Increased / (Decrease)	327,197	37,413	289,784
Claims incurred	13,826,097	6,673,418	7,152,679

2017	£	£	£
Claims paid	11,335,330	5,470,598	5,864,732
Outstanding claims carried forward	13,844,311	6,449,613	7,394,698
Outstanding claims brought forward	(13,107,055)	(6,733,271)	(6,373,784)
Increased / (Decrease)	737,256	(283,658)	1,020,914
Claims incurred	12,072,586	5,186,940	6,885,646

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

A favourable run off of £1,768k gross was experienced during the year in respect of the development of opening claims provisions of £13,844k from previous years (2017 - £1,528k favourable experience on £13,107k). After reinsurers' share, favourable development for the year was £894k (2017: £705k).

10. OTHER TECHNICAL INCOME

	2018	2017
	£	£
Instalment scheme administration charge	280,229	245,875
Commission	2,540,444	3,257,218
	2,820,673	3,503,093

11. STAFF COSTS

	2018	2017
	£	£
Wages and salaries	3,508,846	3,287,602
Social security costs	379,276	348,649
Other pension costs	303,562	297,507
	4,191,684	3,933,758

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

	2018	2017
Management and Directors	11	11
Underwriting and claims	101	101
	112	112

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 2018 the Company made contributions to the schemes of £210,562 (2017: £192,507).

12. DIRECTORS' REMUNERATION

	2018	2017
	£	£
Directors emoluments (including benefits in kind)	570,655	465,555
National Insurance	64,360	53,861
Other pension costs	45,200	34,500
	680,215	553,916

Of the total Directors' remuneration above, £15,153 (2017:£28,478) is paid to third parties for the provision of services of Mr J Davison.

Detailed amounts paid to Directors including the amount paid to the highest paid Director are disclosed within the Report on Corporate Governance on page 28.

13. KEY MANAGEMENT COMPENSATION

	2018	2017
	£	£
Management and Directors	748,939	659,370

Key management includes the executive Directors and members of senior management.

14. INVESTMENT INCOME

	2018	2017
	£	£
Income from Land & Buildings	122,303	140,637
Income from listed investments	4,105	157,532
Income from other investments	169	851
Dividend from subsidiary	312,470	0
	439,047	299,020

Gains on the realisation of investments	852,533	2,823,955
Less accumulated unrealised gains from prior years	(828,207)	(2,249,441)
Profit on disposed investments	24,326	574,514

Unrealised gain / loss on retained investments	235,228	1,148,229
Total investment gains / (losses)	259,554	1,722,743
Total investment income	698,601	2,021,763

15. AUDITORS' REMUNERATION

Audit fees including VAT amounted to £91,409 (2017 - £89,635). No fees were paid, in the current or prior year, in respect of any other services. Of this amount, £24,600 (2017: £34,200) related to our Solvency II audit.

16. INVESTMENT EXPENSES AND CHARGES

	2018	2017
	£	£
Investment management expenses	116,215	117,018

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

	2018	2017
	£	£
Directors' remuneration (see note 12)	635,015	519,416
Company Secretary's remuneration	35,731	30,225
Auditors' remuneration (see note 15)	91,409	87,965
Directors' contribution to staff pension scheme	45,200	34,500
Depreciation	125,008	128,737
Amortisation	48,211	58,620
	980,574	859,463

18. TAXATION

(a) Analysis of charge in period

	2018	2017
	£	£
Current taxation		
Foreign tax	0	13,161
Total current taxation	0	13,161

Deferred taxation		
Arising from origination and reversal of timing differences	(176,841)	26,355
Total deferred taxation	(176,841)	26,355
Taxation on profit on ordinary activities	(176,841)	39,516

Tax charged / (credited) in other comprehensive income		
Deferred taxation		
Arising from origination and reversal of timing differences	0	86,260
Total deferred tax in other comprehensive income	0	86,260

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2016 - lower than the standard rate of corporation tax in the UK) of 20% (2016 - 20%)

18. TAXATION continued overleaf

18. TAXATION (continued)

(b) Factors affecting tax charge for period

The tax assessed for the period is at the full rate of tax in the UK (20%). The differences are explained below:

	2018	2017
	£	£
Profit on ordinary activities before tax	(9,040)	2,350,174
Profit on ordinary activities multiplied by the full rate of tax in the UK, 19% (2017:19%)	(1,718)	470,035
Effects of:		
Expenses not deductible in determining taxable profit	2,544,260	2,392,879
Timing differences between capital allowances and depreciation	1,146	33,771
Deferred tax not recognised	(10,362)	0
Income exempt from taxation	(2,625,569)	(2,761,101)
Group income exempt from tax	(59,369)	0
Tax charge arising from changes in pension funding	(55,670)	90,800
Tax increase on chargeable gains arising in the period	0	104,043
Tax decrease on latent gains	23,706	(290,971)
Increase from a different UK tax rate on some earnings	0	154
Other difference	35	(94)
Adjustment in respect of prior year	6,700	0
Total tax charge for period (see (a))	(176,841)	39,516
The company is taxed as a mutual		

19. OTHER INTANGIBLE ASSETS

	Software Costs	Total
COST	£	£
At 1 October 2017	701,787	701,787
Additions	39,570	39,570
Disposals	0	0
At 30 September 2018	741,357	741,357
PROVISION FOR DEPRECIATION	£	£
At 1 October 2017	613,187	613,187
Charge for the year	48,211	48,211
Disposals	0	0
At 30 September 2018	661,398	661,398
NET BOOK VALUES		
At 30 September 2018	79,959	79,959
At 30 September 2017	88,600	88,600

20. LAND AND BUILDINGS

	Freehold Property	Total
COST	£	£
At 1 October 2017	3,037,307	3,037,307
Additions	0	0
Disposals	0	0
At 30 September 2018	3,037,307	3,037,307
PROVISION FOR DEPRECIATION	£	£
At 1 October 2017	767,307	767,307
Revaluation	0	0
Disposals	0	0
At 30 September 2018	767,307	767,307
NET BOOK VALUES		
At 30 September 2018	2,270,000	2,270,000
At 30 September 2017	2,270,000	2,270,000

Land and Buildings includes a freehold property from which the Company trades and having considered the local market and discussed with experts the Directors believe that this is the appropriate value at 30 September 2017. During the year the Company traded from approximately two thirds of (2016 - half of) the floor space of this property.

The Company's property was valued as at 30 September 2017 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.

21. INVESTMENTS

Other Financial Investments	Current Value		Historical Cost	
	2018	2017	2018	2017
Securities and units in unit trust	£	£	£	£
Listed equity shares	0	877,751	0	182,834
Unit trust	0	150,496	0	17,205
	0	1,028,247	0	200,039
Collective investments	29,075,720	27,955,525	27,718,000	26,718,000
	29,075,720	28,983,772	27,718,000	26,918,039

21. INVESTMENTS (continued)

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.

	2018	
	Level 1	Total
Shares and other variable yield securities and units in unit trust	£	£
Collective investments	29,075,720	29,075,720

	2017	
	Level 1	Total
Shares and other variable yield securities and units in unit trust	£	£
Listed equity shares	877,751	877,751
Unit trusts	150,496	150,496
	1,028,247	1,028,247
Collective investments	27,955,525	27,955,525
	28,983,772	28,983,772

22. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	Shares in Group undertaking	Held at fair value
	No.	£
At 30 September 2017	3	312,456
Profit in the year		17
Dividend paid		(312,470)
Change in fair value		(312,453)
At 30 September 2018	3	3

The fair value of the subsidiary is the value of the subsidiary's net assets at the relevant date. The reduction in the fair value arises from the net assets distributed as a dividend to the Company, and recognised in the profit and loss, in the year.

Subsidiary undertaking	Country of Incorporation	Nature of Business	Shares held class	Proportion of shares held
Cornish Mutual Insurance Services Limited	UK	Insurance Broker	Ordinary £1	100%

Cornish Mutual Insurance Services Limited has the same registered address as the parent company.

The profit for the year for Cornish Mutual Insurance Services Limited was £17 (2017 - £1,345), and its aggregate reserves at the balance sheet date were £nil (2017 - £312,453).

23. CLAIMS OUTSTANDING

General Business	£
Gross amount	
At 1 October 2017	13,844,311
Movement in provisions	327,197
At 30 September 2018	14,171,508
Reinsurance amount	
At 1 October 2017	6,449,613
Movement in provisions	37,413
At 30 September 2018	6,487,026
Net provisions	
At 30 September 2018	7,684,482
At 30 September 2017	7,394,698

24. OTHER DEBTORS

	2018	2017
	£	£
Other debtors	**0**	**18,960**

25. TANGIBLE ASSETS

	Furniture and Equipment	Total
COST	£	£
At 1 October 2017	923,627	923,627
Additions	242,199	242,199
Disposals	0	0
At 30 September 2018	1,165,826	1,165,826
PROVISION FOR DEPRECIATION		
At 1 October 2017	710,330	710,330
Charge for the year	125,008	125,008
Disposals	0	0
At 30 September 2018	835,338	835,338
NET BOOK VALUES		
At 30 September 2018	330,488	330,488
At 30 September 2017	213,297	213,297

26. EQUALISATION PROVISION

	2018	2017
	£	£
At 1 October	0	69,294
Increase / (decrease) in provision	0	(69,294)
At 30 September	0	0

No equalisation provision is brought forward or retained in the financial statements. There is £nil effect on Members' Funds in the current year (increase in Members' Funds in 2017: £69,294).

27. PROVISION FOR DEFERRED TAXATION

	2018	2017
	£	£
Unrealised gains on investments	0	178,284
Capital Allowances in excess of depreciation	7,002	5,293
Tax losses carried forward	(80,669)	(6,736)
Undiscounted deferred tax liability	**(73,667)**	**176,841**
Deferred tax asset recognised in other debtors	0	0
Net deferred tax liability	**(73,667)**	**176,841**

Net provision for liability at start of period	176,841	64,226
Deferred tax charge in profit and loss	(176,841)	26,355
Deferred tax credit in other comprehensive income	0	86,260
Provision for liability at the end of the period	0	176,841

Deferred tax provisions have been calculated at the rate of 17% (2017 - 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.

The financial statements include a deferred tax liability of £nil (2017 - £176,841) in relation to the defined benefit pension scheme as shown in note 29.

28. FINANCIAL INSTRUMENTS

	2018	2017
	£	£
Financial assets held at fair value through the profit and loss	29,075,720	28,983,772
Debt instruments measured at amortised cost	12,817,999	13,379,563
	41,893,719	42,363,335

Financial assets that are equity instruments measured at fair value	3	312,456
Financial liabilities measured at amortised cost	14,383,594	14,072,427

29. 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 2017. 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:

	2018	2017
Rate of increase in pensions in payment	3.60%	3.60%
Discount rate	2.90%	2.80%
Inflation assumption	3.60%	3.60%

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 is the same as last year and follows the table known as S1NXA with CMI 2015 projections and can be summarised as follows:

Life expectancy at age 65	2018	2017
Male currently aged 45	23.2	23.2
Female currently aged 45	25.8	25.8
Male currently aged 65	21.9	21.9
Female currently aged 65	24.3	24.3

	2018
Changes in the fair value of the scheme assets are as follows:	£000's
Opening fair value of scheme assets	9,211
Interest income	253
Return on assets less interest	386
Contributions	386
Benefits paid	(624)
Administration cost	(119)
Closing fair value of scheme assets	9,493

29. POST EMPLOYMENT BENEFITS (continued)

	2018
Changes in the present value of the defined benefit obligation are as follows:	£000's
Opening defined benefit obligation	9,211
Interest cost	227
Benefits paid	(624)
Experience gain on liabilities	0
Change in demographic assumptions	0
Changes to financial assumptions	(171)
Restriction to liability gain to derecognize overall surplus	850
Closing defined benefit obligation	9,493

	2018	2017
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	119	79
(Gains) / Losses on settlements and curtailments	0	0
Total operating charge	119	79
Analysis of the amount credited to other finance income:		
Interest return on pension scheme assets	(253)	(194)
Interest on pension scheme liabilities	227	220
	(26)	26
Total	93	105
Actual return on assets	639	517

29. POST EMPLOYMENT BENEFITS continued overleaf

29. POST EMPLOYMENT BENEFITS (continued)

The fair value of the plan assets can be summarised as follows:	2018	2017
Equity instruments	34%	64%
Multi-asset funds	18%	0%
Absolute return bond funds	15%	0%
Cash	3%	7%
Liability driven investment	30%	29%

	2018	2017
The amounts recognised in the statement of financial position were are as follows:	£000's	£000's
Fair value of assets	9,493	9,211
Present value of funded obligations basic calculation	(7,843)	(8,411)
Surplus / (Deficit) in scheme	1,650	800
Restriction to surplus	(1,650)	(800)
Net Pension (Deficit)	nil	nil

The standard FRS102 calculation based upon the parameters disclosed above resulted in a surplus of £1,650k. 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.

30. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2018	2017
	£	£
Trade creditors	140,106	154,492
Other taxation and social security costs	805,791	809,291
Other creditors	71,980	73,624
Amounts owed to a subsidiary undertaking	0	315,289
	1,017,877	1,352,696

31. TRANSACTIONS WITH RELATED PARTIES

Directors who have insurance policies with the Company receive this service on normal commercial terms, or as appropriate 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 £56k of which £31k was still due at the year-end through normal use of instalment payment terms available to all Members. £9,492 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 £85k with a further £64k provided as a provision for future payments against these claims.

These premium on the insurance policies is 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.

32. FINANCIAL COMMITMENTS

	2018	2017
a) Operating lease commitments as lessee	£	£
Expiry date:		
- within one year	165,530	133,446
- between two and five years	254,260	205,160
- after five years	60,000	80,000
	479,790	418,606

b) Operating lease commitments as lessor	£	£
Expiry date:		
- within one year	42,960	78,000
- between two and five years	0	312,000
- after five years	0	156,000
	42,960	546,000

The cost recognised in profit and loss in respect of operating lease commitments in the current year was £201,704 (2017 – £157,961).

Operating lease commitments as lessor represent leases of certain elements of its freehold property to third parties. At the balance sheet date the minimum lease receipts to the Company under these arrangements are as included in part b) of the note above. During the year the lessee exercised break clauses within the lease.

2018

Cornish Mutual

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