2019

ANNUAL REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2019

Company Registration Number: 00078768


Cornish Mutual
Insurance that keeps its word
Welcome to
Cornish Mutual

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 30 September 2019. During the last twelve months, your Company has faced many challenges, and has been able to deal with them as each arises.

I must advise you that Alan Goddard, our Managing Director, has decided to retire after eighteen years of service. I wish to pay tribute to Alan's service to the Company. Under Alan's leadership, the Company has grown, rising from around £14m gross written premium on his appointment to the current level of around £24m. During his period of office, Alan has always sought sustainable growth, seeking to ensure that the Company has been able to provide for the insurance needs of our Members.

Alan has also guided the Company through a number of significant developments, including changes to our investment strategy and changes to our reinsurance model, as well as the effects of much enhanced regulatory environment. The ability to negotiate such matters is built on the success and industry that Alan has given to the Company.

Under Alan's leadership, the Company has always sought to provide excellent service to members, making the member the focus of all that we do. It is to his credit that this ethos pervades the Company, and is remarked upon many times by people who experience us for the first time.

He has also sought to ensure the wellbeing of our staff, particularly as we have grown in number, and has been anxious to ensure that our staff can grow their careers with the Company.

Alan's decision meant that the Board had to consider the appointment of a new Managing Director. We were aware that this would be a difficult task. Your Company is unique in many ways, and there are limited number of people with the expertise we required and the necessary understanding of the mutual sector. One such candidate was our Finance and Operations Director Peter Beaumont. He was considered together with a number of candidates put forward for interview by an external recruitment agency, to ensure an open and fair procedure.

After due consideration, I am pleased to report that the Board has appointed Peter Beaumont, who assumed his new role on 1 October 2019. Although Alan will retire officially on 31 December 2019, he will be available to assist until that time. We wish Alan and his wife Elaine a long and happy retirement. We also wish Peter great success, and he will enjoy the support of your Board and our staff.

A full report on this is given by Sue Turner the Chair of our Remuneration and Nomination Committee.

As a matter of courtesy, I would also like to indicate my intention to resign as Chairman before the end of the next Financial Year. Having already served over the recommended time from a governance perspective, and having supported Alan's departure, it is appropriate that another Director succeeds me.

As to other matters, your Company continues to make progress as our Report and Accounts show. As any other insurer, our results are always affected by the provision we make for claims, and the performance of our investments. In this respect, we have suffered some losses on our investments, but they are of a long term nature, and we have noticed recovery in the last two months of our financial year. The report given by Charles Pears, the Chair of the Investment and Capital Management Committee gives further information.

The Company is also very mindful of the risks which it faces. The report of Paul Davies, the Chair of the Risk and Audit Committee gives a full explanation of the issues faced during the year. We have also been grateful for the challenge provided by our External Auditors PwC and the External Internal Auditors PKF Littlejohn.

A full report of the Company's strategy is given by the Managing Director.

Throughout this year, we have always been mindful of the needs of our Members, and have sought to provide them with the insurance cover that they need. There has been continuing uncertainty facing our members, including the uncertainty over Brexit. If and when we leave the European Union, the detailed negotiations will follow, many of which will be important for the farming community in the South West. We take no political stance on these matters, and simply will do all we can to assist our members by providing the answer to their insurance needs.

During this past year, we have continued to support the agricultural community and to take our corporate social responsibilities seriously. We have attended over sixty events, and provided appropriate sponsorship and support to them, as well and continuing our support of Young Farmers, who are the future of farming.

None of this could have been achieved without the efforts and support of all our staff. I would like to pay tribute to them all, and thank them for their untiring effort and assistance.

Ian Pawley

Chairman

10 December 2019

Strategic Report

Purpose

Cornish Mutual exists to provide general insurance services to the rural community of the four counties of the South West of England. We intend to preserve the value of the business for current Members, enhance the business, and generate future value to enable us to meet the general insurance requirements of both existing and new Members for the foreseeable future. Our vision is to be the Rural Insurance Provider of Choice in the South West.

Service is the essence of what we do. We structure ourselves to ensure we provide the service which our Members desire. Our Field Force provides service to existing Members and finds new Members who are attracted 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.

We do not transact business through intermediaries believing the most attractive service and pricing is delivered through a direct relationship with our Members. We seek to deal with our Members as they choose; they can reach us face to face, by telephone, and electronically, whichever manner suits them. Significant numbers choose to deal with us via our Contact Centres. Whilst we have traditionally been viewed as an insurance provider to the agriculture community, we are becoming more relevant to the wider rural community. Our householder's product gives Members the opportunity to enjoy our service in a personal capacity. We also increasingly provide insurance to businesses that deliver 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.

As we enter a new strategic planning period we do not envisage dramatic change to this model; we expect it to evolve as the needs of our Members develop and as our markets change.

Strategy and Objectives

The Company delivers its purpose and works towards its vision by executing plans to deliver 5 clear objectives:

- Through exceptional service we seek to exceed Member expectations and thereby engender loyalty and encourage members to recommend us to others;
- 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. They continue to be delivered by the provision of a local personal service supplemented by Contact Centres in Truro and 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 our Members to recommend a company's products or services to others), retention of Members at renewal and number of complaints. We pride ourselves on our high retention levels and low 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 key 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 return on the insurance activity which covers the cost of running the insurance business, leaving investment income as a source of capital to continue to grow the business for the benefit of all Members.

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 £1.6m over the year in 2019 (2018: decreased by £0.4m) but remain comfortably in excess of regulatory requirements and our own appetite.

Insurance performance has been impacted by large claims and continued poor investment performance in 2019. However, given the inherently volatile nature of the business, results are within expected levels. This is discussed further below:

Financial Highlights

Year	2013	2014	2015	2016	2017	2018	2019
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Gross Written Premium	**20,300**	**20,570**	**20,590**	**20,820**	**22,310**	**23,440**	**23,650**
Gross Earned Premium	**19,810**	**20,460**	**20,710**	**20,600**	**21,500**	**23,000**	**23,450**
Less: Gross Claims	14,460	13,790	9,460	10,870	12,070	13,830	15,360
GELR %age	73%	67%	46%	53%	56%	60%	66%
	5,350	6,670	11,250	9,730	9,430	9,170	8,090
Less: Expenses	5,140	5,310	5,570	5,960	6,430	6,830	6,980
Gross Earned Expense ratio	25.9%	26.0%	26.9%	28.9%	29.9%	29.7%	29.8%
Gross insurance result	**210**	**1,360**	**5,680**	**3,770**	**3,000**	**2,340**	**1,110**
Profit before tax	1,460	360	790	1,590	2,350	(10)	(1,340)
Less: Investment returns	2,050	1,040	350	1,820	1,890	580	590
Net insurance result	**(590)**	**(680)**	**440**	**(230)**	**(460)**	**(590)**	**(1,930)**
Effect of reinsurance	**(800)**	**(2,040)**	**(5,240)**	**(4000)**	**(2,540)**	**(2,930)**	**(3,040)**
Effect of reinsurance as %age of Gross Earned Premium	(4%)	(10%)	(25%)	(19%)	(12%)	(13%)	(13%)
Members' Funds £m	**18.4**	**19.4**	**20.0**	**20.4**	**23.4**	**22.9**	**21.3**

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

Following a review of our motor book, we amended our rating structure for our 'Any driver' policies to ensure our pricing was consistent with policy exposure.

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 £23,650k (2018:£23,437k).

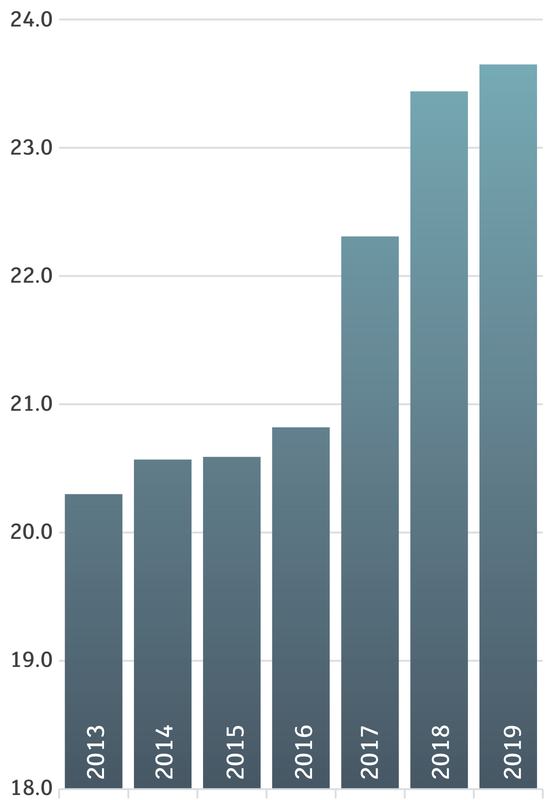
Gross earned loss ratio (GELR)

Gross earned loss ratio is the movement in the cost of claims, excluding the effect of reinsurance, as a proportion of gross earned premium. It includes the cost of claims reported in the year and movements in the estimated cost of claims brought forward from previous accounting periods.

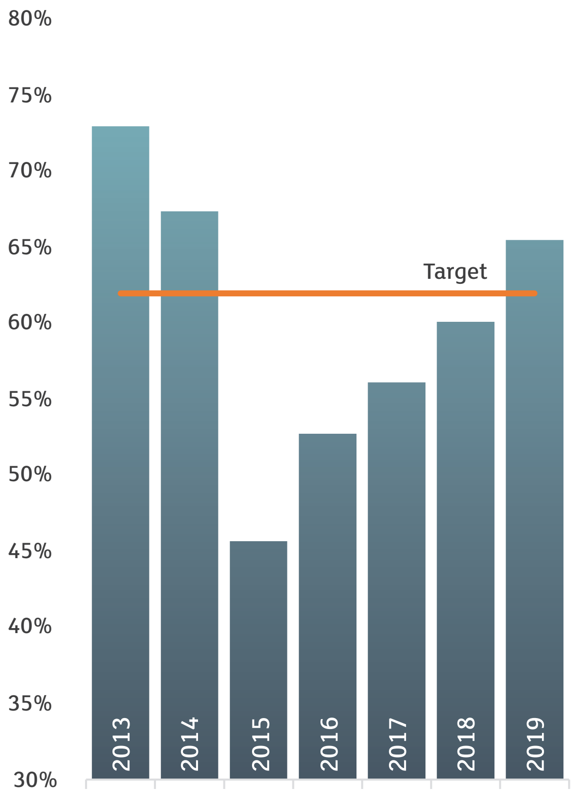
GELR shows the underlying performance of the book of business and reflects our ability to correctly select and price the risks we insure.

Despite underwriting broadly the same risks each year the gross claims cost varies considerably. This is mostly caused by the effect of a few individual large claims or, as in the case of 2014, a period of bad weather. For 2019 our reported loss ratio is higher than our target but remains within expectations. The movement from 2015 to 2019 appears to suggest an increasing trend, but as the target line suggests, it is actually the result of the volatility around the GELR and is in line with our expectations.

Gross Written Premium £m



Gross Earned Loss Ratio



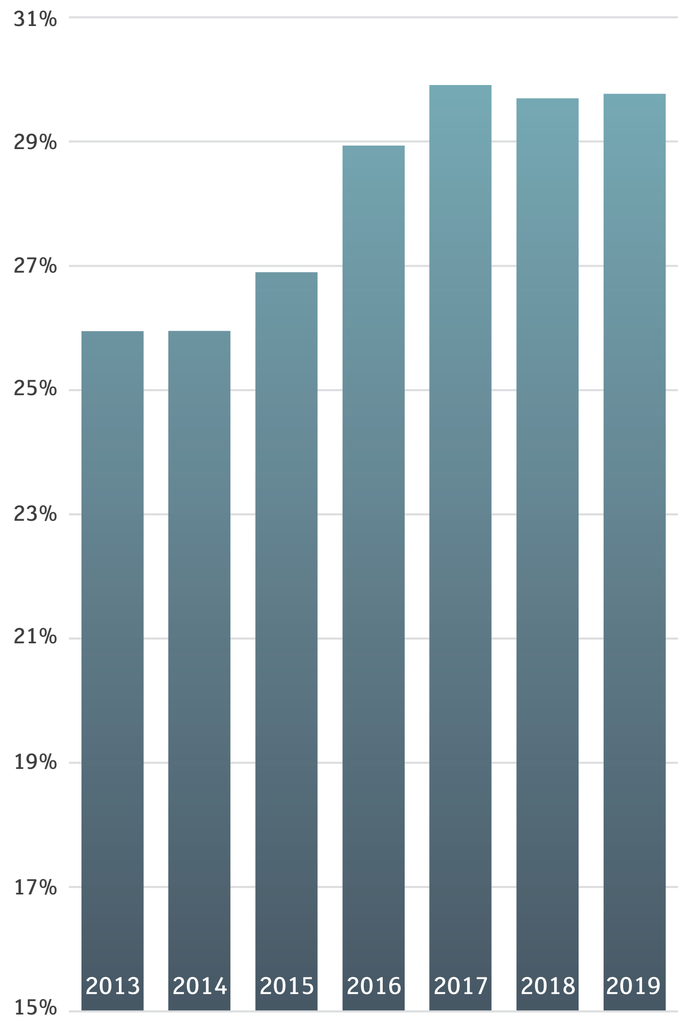
Expenses

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 is very consistent with 2018 at 29.8% compared to 29.7% last year.

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 process efficiencies 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.

During the Financial Year 2019, Cornish Mutual continued to participate 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.

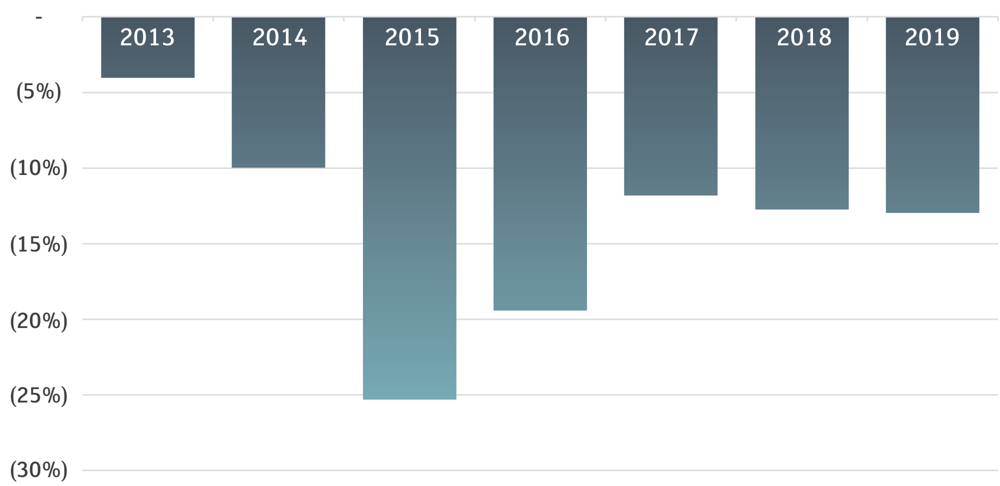
While quota share reduces the impact of large claims, it still leaves the possibility of a large loss on the share of business we retain. To protect against the risk to the retained share, we purchase excess of loss insurance. This provides protection for certain incidents or events in excess of agreed limits. Cornish Mutual pays a premium for such cover.

Whilst reinsurance clearly 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. Whilst our reinsurance programmes have been in place to protect against loss to the business, this has been at the cost of sharing our underwriting success with reinsurance partners by a reduction in our profit; we have made considerable return for our quota share reinsurers. With the volatile investment markets and decreased return from this part of the business it is important we secure an equitable return from our core insurance activities and to this end we are changing our reinsurance arrangements. Our new structure will see us retain more of the risk, and hence any profit, whilst continuing to receive protection against large individual losses and an aggregation of small losses which could impact our results.

Impact of reinsurance as a %age of gross earned premium

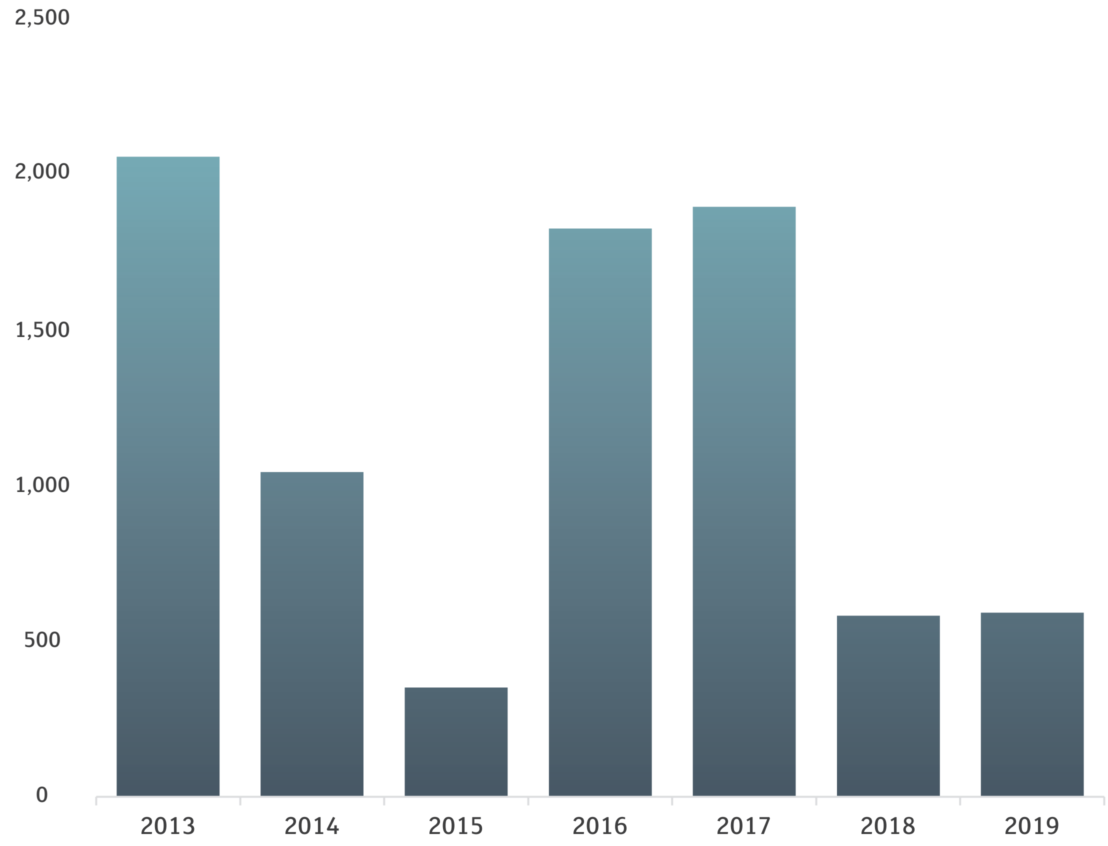


Investment Returns

Investment returns in 2019 were below expectations but in line with last year's levels.

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 providers more ability to manage these challenges on our behalf.

Investment returns £'000



Members' Funds have fallen in the year from £22.9m to £21.3m. 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. While the latest pension valuation suggest a surplus, this has not been recognised because there is not an unconditional right to the surplus and a benefit to the company is not anticipated to arise. The valuation basis for accounting purposes does not necessarily reflect the full liability of the pension if these assumptions were to change or if the company sought to pay another company to take on these liabilities. Accordingly risk associated with the pension remains, although it now appears with a nil value in these financial statements.

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

Premium growth in 2019 was low, but acceptable. 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 poor 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 risk 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.

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

The issue of climate change is becoming an increasing focus for the Company, as well as, the wider Insurance industry. We expect the identification and management of this risk to develop further over the next few years.

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 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 Sales and Underwriting Collaboration meeting, and 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. Following a review of current arrangements our reinsurance structure is changing and we are confident this revised approach will provide the protection we require in a manner which allows us to generate a better return for our Members.

Counterparty 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 quota share reinsurers quarterly in arrears with the claims being paid by us out of the premiums which we collect. As the reinsurance structure is changed the cash balance of the business will increase which will mitigate the credit risk the business faces.

We monitor the credit ratings of our reinsurers 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 CORNISH MUTUAL ASSURANCE COMPANY LIMITED | YEAR ENDED 30 SEPTEMBER 2019

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 Own Risk Solvency Assessment ('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. Previously, two core scenarios have been modelled, one assuming quota share reinsurance arrangements and a second assuming that quota share reinsurance cover ceases but existing excess of loss cover is maintained. Given the changes to reinsurance from quota share to a stop loss arrangement commencing 1 October 2019, these forward looking scenarios have been updated to reflect this change. These reinsurance types are explained on page 9.

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, which reflects the change to our reinsurance arrangements, the Company has a reasonable expectation that it will be able to continue to operate 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.

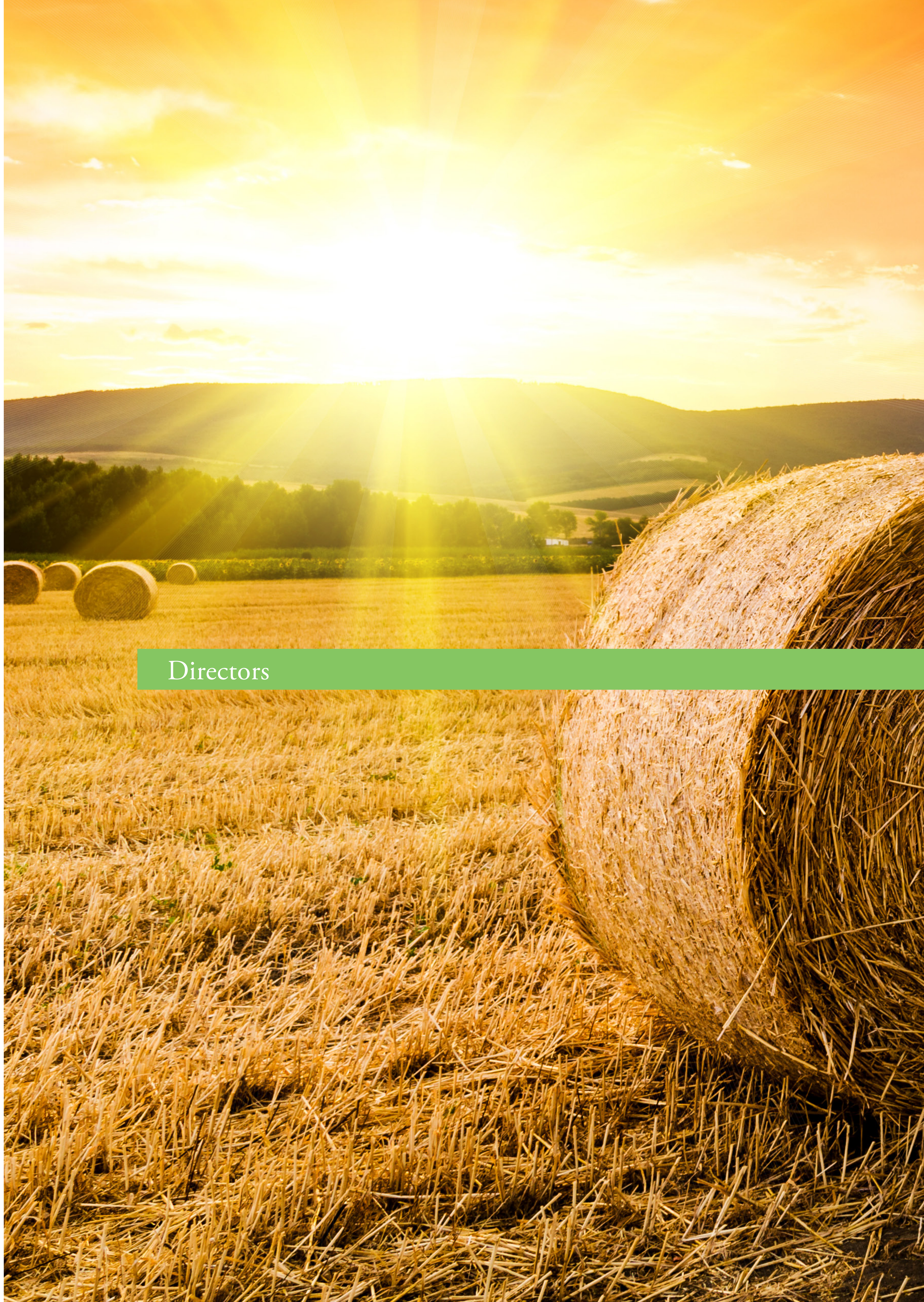
As I retire, it remains for me to say that it has been an honour to have served the Members of the Company and the wider rural community over the last eighteen years.

On behalf of the Board

Alan Goddard

A. Goddard

Managing Director
10 December 2019



The following people served on the Board of Directors during the year ended 30 September 2019.

I J PAWLEY	LLB
J P OATEY	
P J DAVIES	BSc, C Dir, FPMI, FIDM, FIOD
A GODDARD	Managing Director, MA (OXON), ACII, DipMgmt (Open)
P S BEAUMONT	Finance and Operations Director, BSc, FCA, Cert CII
R B CAWSE	MA (EXON), DMS, FCIB, FRSA
C W PEARS	BA (Hons), ACII
R LANE	TD, BA FCMI, FCII
S E TURNER	LLB (Hons)
P W D MAHON	Insurance Director, BSoc Sc, FCII
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 2019.

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 ten years as a Director, Mr Pawley offered himself for annual re-election. He, together with Mr Cawse, Mr Goddard and Mr Pears were re-elected at the Annual General Meeting held on 28 March 2019. At this same meeting Mr Lane, Mr Mahon and Mrs Turner were elected by the Membership, having been co-opted on to the Board in April and May 2018.

Auditors

PwC were re-appointed as Cornish Mutual's external auditors at the AGM in March 2019. They have conducted the audit for the financial year ended 30 September 2019.

Notification of Future Changes

As referenced in the Chairman's report, Alan Goddard is to retire on 31 December 2019 after eighteen years' service and following one year's notice. Peter Beaumont has performed the duties of Managing Director on a delegated basis since 1 October 2019.

On behalf of the Board

Margaret Schwarz
Company Secretary

10 December 2019

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 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

10 December 2019

The AFM Corporate Governance Code

The Company uses the 2019 edition of the AFM's Corporate Governance Code* as a benchmark to demonstrate good governance. This Code was effective from 1 January 2019, but we have decided to adopt it early and report against its principles for this financial year. The Code has six principles: Purpose and Leadership, Board Composition, Director Responsibilities, Opportunity and Risk, Remuneration and Stakeholder Relationships and Engagement; each of which is broken down into more detailed provisions. The following section explains how Cornish Mutual applies these provisions in its governance and where in this Annual Report or elsewhere, compliance with those provisions is evidenced.

Principle One - Purpose and Leadership

Purpose

The purpose of Cornish Mutual is to provide general insurance services to the rural community of the four counties of South West England as described more fully in the Strategic Report on page 4. Our values, strategy and behaviours are directed towards putting our Members, and the protection of their interests, at the centre of all that we do. We strive to be proactive in assisting Members with our expert advice and personal service. The Board have helped to promote a clear and collective vision through engagement with employees throughout the year such as debriefs following every Board meeting.

The Board is ever mindful of the dilemma of mutuality; the interests of existing Members at any point in time may differ from the needs of the business to generate a surplus sufficient to enable investment, for example in new technology or skill, and/or growth of the business. Both capital investment and growth benefit future Members, but are made possible using the funds provided in large part by past and existing Members. This means we must be very clear as to the benefits to Members we expect from our strategic decisions in order to balance these needs over time. In 2019 the Board commissioned an independent review of Marketing undertaken by the Company to ensure effective spend of Members' funds.

Values and Culture

A healthy culture is critical to the success of any company. In order to more deeply understand our culture and ensure that it is aligned with our purpose the Board in 2019 commissioned an independent audit of the Company's values, attitudes and behaviours, and initiated a staff survey. The results of the audit and survey have already informed a wide variety of activity in the Company from adjusting the appraisal system to informing Board of recruitment choices. Encouragingly, they also highlighted the clear sense of purpose and a collective vision shared across the Company. We intend to run the staff survey annually and respond to the feedback.

The Board continues to monitor indicators of a healthy culture throughout the year including levels of staff absenteeism rates and turnover. We conduct exit interviews for every employee that has chosen to leave the business.

Strategy

Our strategy, objectives, and performance indicators are found in the Strategic Report starting on page 4.

Principle Two - Board Composition

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

Strategy and Management which 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 Nomination Committee in determining the salary budget for the Company as a whole and remuneration of Directors. Director remuneration is subject to Member confirmation at the Annual General Meeting (AGM);

Delegation of authority which includes the Company-wide scheme of delegation and terms of reference for various committees.

Chairman

The Board members for this fiscal year are listed on page 21. Cornish Mutual operates with a separate Chairman and Managing Director to ensure the balance of responsibilities and accountabilities are effectively maintained. Mr Pawley as Chairman has responsibility for the effectiveness of the Board. His duties, and those of all Directors, are detailed in our Board Charter which is available on the Company website www.cornishmutual.co.uk.

Balance and Diversity

The Cornish Mutual Board is mindful of the need to ensure the right balance of skills, experience, and background in its recruitment of directors. We recognise that more diversity in gender and ethnic backgrounds would benefit the Company and consider this a priority in our recruitment. However, competence relevant to the needs of our business remains our overarching recruitment criterion. In order to further diversity as well as maintain expertise, we are developing a skills matrix to aid Board recruitment.

Size and Structure

A trade-off exists between a board that is large enough to meet the requirements of governance and strategic oversight, but small enough for nimble and effective decision-making. The Remuneration and Nomination Committee is currently considering the scope for reducing the size of the Board in the future if this can be achieved without compromising the level of expertise.

All Non-Executive Directors must be in a position to effectively 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. Mr Pawley, who was independent on his appointment has served more than nine years and so now offers himself for re-election at each Annual General Meeting. Terminating all appointments after nine years of service could lose the Board valuable knowledge of the organisation. To balance this, the Chairman rigorously evaluates all Non-Executive Directors to ensure they remain in a position to operate independently and remain fit and proper people to undertake the role.

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

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

** The Board held a special meeting on 25 July 2019 to appoint Mr Beaumont as Managing Director at the conclusion of a recruitment process.

Effectiveness

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 twice a year without the Executive and once a year without the Chairman. The results of these meetings are considered in the individual's appraisal.

New Board members take part in a comprehensive induction programme when joining and all Board members participate in an extensive programme of training and development each year. The Board conducts an annual self-assessment of its effectiveness.

As mentioned above, The Board Charter sets out the roles and responsibilities of directors and the support the Company makes available to them to fulfil their responsibilities. This includes the services of a Company Secretary (known internally at Cornish Mutual as the Governance Leader) who was appointed by the Board and reports to the Chairman of the Audit Committee.

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.

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.

Jeremy Oatey

Non-Executive Director

With an extensive background in farming both locally and nationally, and having won Farmers Weekly Arable Farmer of the year in 2013, Jeremy Oatey is passionate about the farming community. As owner of Agricola Growers Ltd, Jeremy farms in South East Cornwall and provides contract farming services to a number of local landowners. He also runs HF Produce Ltd which supplies major bakeries and food service businesses with prepared vegetables. He is a Member of Cornish Mutual for his own business activity. Cornish born and bred, Jeremy also provides support to other local rural businesses and organisations.

Paul Davies

Non-Executive Director

Paul is a Chartered Director with a career long background in financial services including life and general insurance, pensions, and investment. He has previously held Executive posts as Managing Director, Chief Operating Officer, and Marketing and Business Development Director on several Insurance Company Boards, delivering major growth, acquisition, and change management successes. Paul has also held a number of other Non-Executive Director roles and is currently a Council Member at the University of Gloucestershire and a Pension Fund Trustee with Unum Limited. He also works with the IOD on the corporate governance aspects underpinning Chartered Director accreditation. He is an Economics and Statistics graduate of the University of Southampton and lives in Gloucestershire.

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 Chairman of Civil Service Healthcare Society Ltd and Trustee Director of Southwest Mutual. Born and raised in Devonport, Roger graduated from the University of Exeter with a Master's degree in Leadership Studies. He has resided in Devon for most of his life and now lives in Cornwall.

Charles Pears

Non-Executive Director

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.

Richard Lane

Non-Executive Director

Richard has worked in general insurance for 48 years. Having developed his career at RSA he subsequently worked for Zurich and LV= before being appointed as Managing Director of Ansvar Insurance a specialist charity and church insurer. He has also served as an Army Reservist for 40 years, initially as an Engineer, then as a Logistician before working at Army Headquarters focusing on individual and leadership training through the development of accredited skills. He is both a Chartered Manager and Chartered Insurer. Having spent much of his formative career working in the rural communities of Yorkshire and Lincolnshire, Richard has been a resident of Dorset for 23 years.

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 and 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.

Alan Goddard

Managing Director

Alan Goddard joined the company as Deputy General Manager in December 2001. Alan, a Chartered Insurer, 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. He has previously worked with PwC 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). Alan gave notice of his intention to retire as Managing Director in January 2019.

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 and Operations 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.

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 PwC acting as a Consultant to many of the UK's leading general insurers. Paul, a Chartered Insurer, is a Fellow of the Chartered Insurance Institute and a graduate of the University of Birmingham. He joined Cornish Mutual in 2011 and became a Member of the Board in 2018 taking up the role of Insurance Director. Paul is passionate about the rural community in the South West and he knows the region very well having spent his childhood growing up in South Devon. Paul is married with two children and he lives on the South Cornwall coast in Falmouth.

Principle Three - Director Responsibilities.

Accountability

The Company's Board Charter, Memorandum and Articles of Association, Scheme of Delegation, and responsibility and governance maps clearly spell out corporate governance practices and lines of accountability. Directors declare their interests at least annually and any potential conflicts of interests are openly documented and managed.

The Board is evaluated collectively from time to time by an external party to ensure the business is run in an appropriate manner. In 2017 PKF Littlejohn conducted an audit of governance in Cornish Mutual which included the Board. In 2019, Sarah Pryce of The Critical Friend conducted a cultural audit and included Board observation in her reports. The actions arising from both of these reviews have been or are in the process of being acted upon to further enhance overall Board effectiveness.

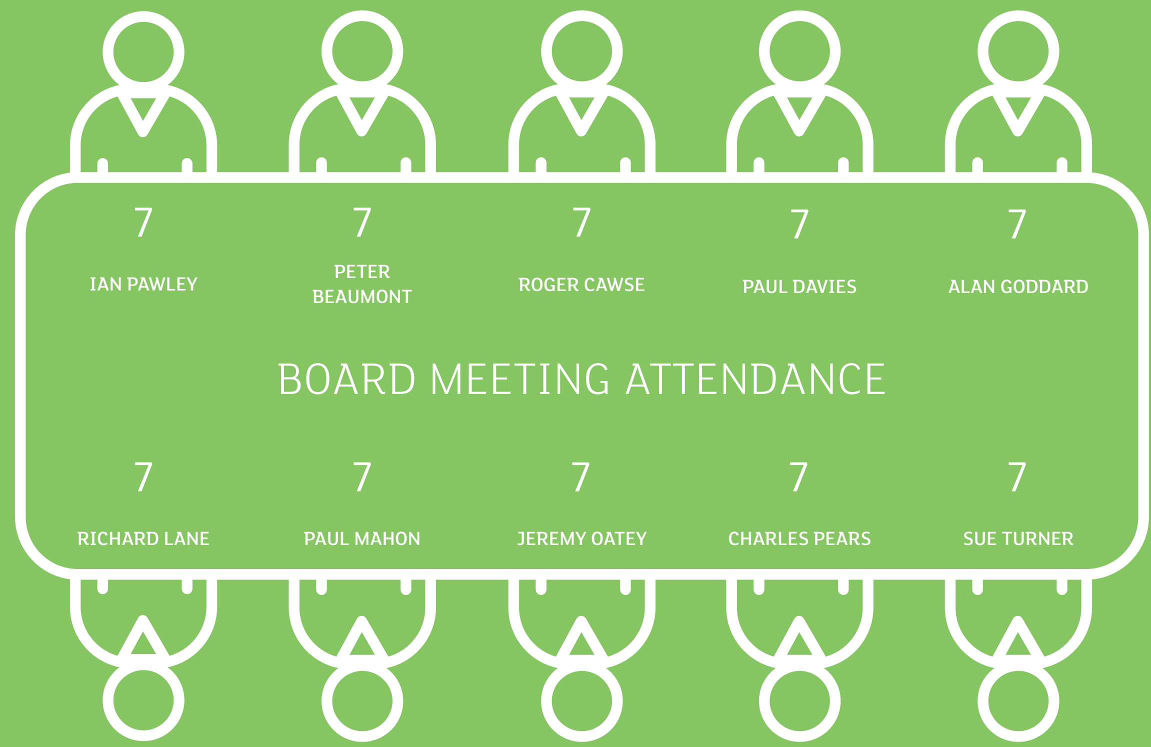
The Company implemented the Senior Managers and Certification Regime (SM&CR) which was extended to insurers in December 2018. The purpose of the regime, which already applies to banks and investment companies, is to encourage staff to take personal responsibility for their actions, improve conduct in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

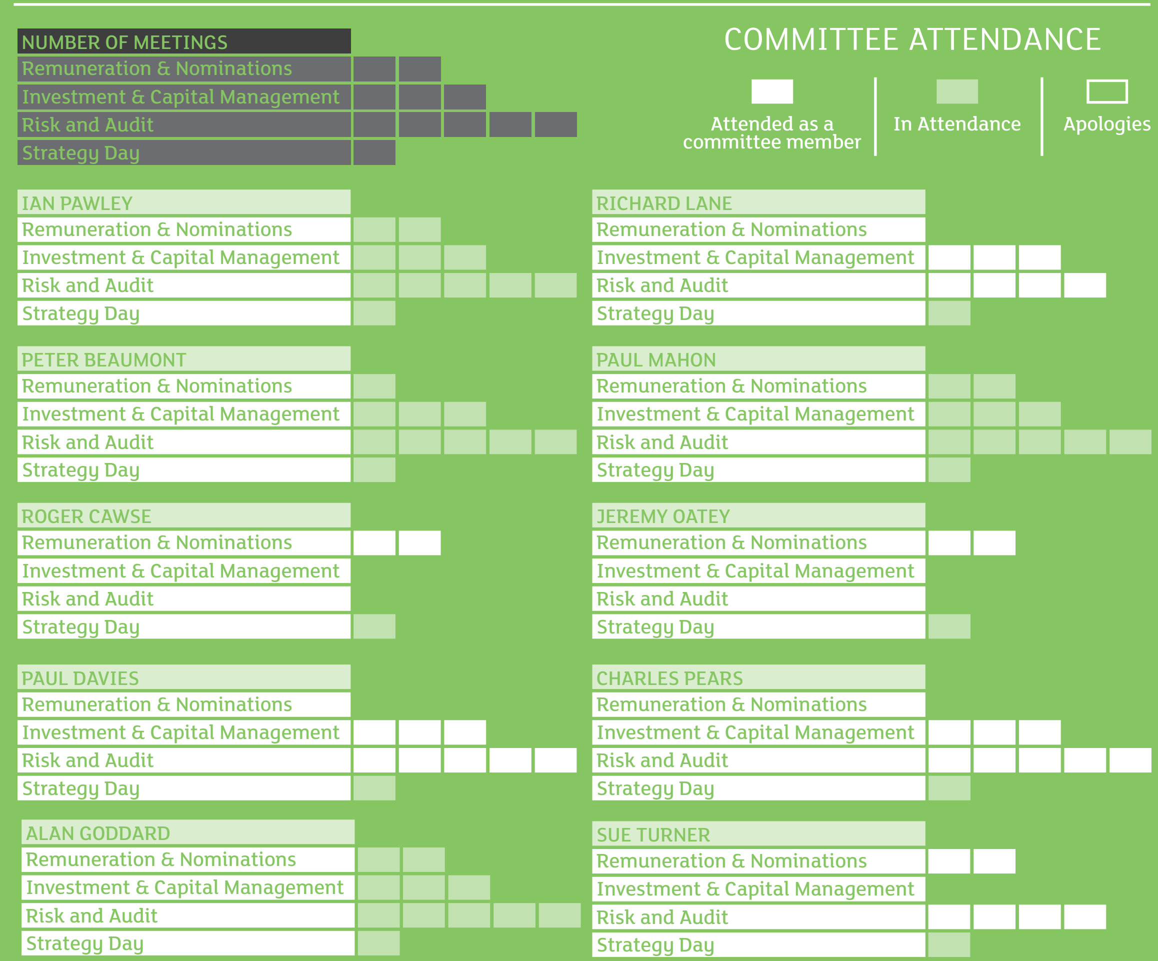
Committees

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 Nomination Committee chaired by Sue Turner. Current members of this Committee are Roger Cawse and Jeremy Oatey.

Each Committee operates to a schedule of matters that forms part of its terms of reference. The three terms of reference and schedules of matters are contained in the Board Charter. All meetings are formally minuted. Each Committee also undertakes an annual self- assessment of its effectiveness. The full details of the work of each of these committees are included later in this document.





Integrity of Information

The Board receives regular and timely information on all key aspects of the business including financial performance, strategy, operations, risks, market conditions, Human Resources, and health and safety aspects.

The information used by the Board and the wider Business for decision-making and reporting is governed by Board policies, the Board Charter, regulatory requirements, and best practice guides of the CII and other professional organisations relevant to our business. The integrity of the Company's financial information is audited annually and our data and information related processes are periodically reviewed by our externally provided internal audit service, most recently in 2019.

Principle Four - Opportunity and Risk

Opportunity and Risk

The Strategic Report starting on page 4 sets out the opportunities and risks currently faced by Cornish Mutual and how the Company is addressing them.

In accordance with Solvency II requirements, Cornish Mutual formally conducts its ORSA regularly. We prepare an ORSA report which we send to the Prudential Regulatory Authority. The purpose of the ORSA is to provide both the Board and the regulators with evidence that the Company frequently and systematically assesses the risks it faces in respect of maintaining solvency capital and achieving its objectives over a five year horizon.

Responsibility

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 Management Risk Committee which consists of Executive Directors and Senior Leaders within the business meets quarterly to thoroughly review the risk register, and the results of this deliberation are reported to the Risk and Audit Committee.

We are incorporating a newly identified risk - the financial risk from climate change - into our risk management processes. We expect the identification and management of this to develop further over the next few years. See the Report of the Risk and Audit Committee starting at page 34 of this report for more information on risks and risk management and control.

Principle Five - Remuneration

In order to deliver value and service to members, the Company must have credible leaders with professional expertise in financial services. Once again, we successfully renewed our status as a Chartered Insurer this year. 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 offered by the Company 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.

Unusually in financial services, variable 'performance based' pay does not form part of Cornish Mutual's executive compensation packages. Evidence suggests that such performance criteria can be subject to distortion and can manipulate behaviour as executives may concentrate on achieving particular targets to the detriment of the long term stewardship of Members' funds. In some cases reward linked to specific performance criteria can lead to inappropriate and excessive risk taking that damages the interests of the company, its employees, and customers.

The approach to remuneration at Cornish Mutual is set out in the Board Policy on Human Resources. The Directors' and Executive Pay Policy section was specifically approved by the Members as part of the Annual General Meeting in 2018. See the Report of the Remuneration and Nomination Committee starting at page 43 of this report for more information on pay and related matters.

Directors' Remuneration

	Year ended 30 September 2019				
Director	Remuneration (£)	Benefits (£)	Pension (£)	Total 2019 (£)	Total 2018 (£)
P Beaumont	149,600	5,519	17,929	173,048	167,725
R Cawse	25,000	831	-	25,831	24,780
P Davies	25,000	831	-	25,831	25,780
A Goddard	195,950	7,018	23,484	226,452	220,087
R Lane	20,000	1,662	-	21,662	10,000*
P Mahon	104,315	5,519	12,645	122,479	49,075*
J Oatey	20,000	-	-	20,000	20,325
I J Pawley	50,000	831	-	50,831	50,780
C Pears	23,000	519	-	23,519	21,825
S Turner	21,250	-	-	21,250	10,325*
J Davison**	-	-	-	-	15,153
				710,903	615,855
National Insurance				**76,938**	**64,310**
Total				787,841	680,215

*comparative on a part year basis. **stepped down at the AGM in 2018.

Principle Six - Stakeholder Relationships and Engagement

Members

We conduct research undertaken by an independent external company 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 83% (2018: 79%) whilst that for new business is 84% (2018: 81%). Both of these are industry leading benchmarks which reflect the high quality level of service we consistently provide to our Members. 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.

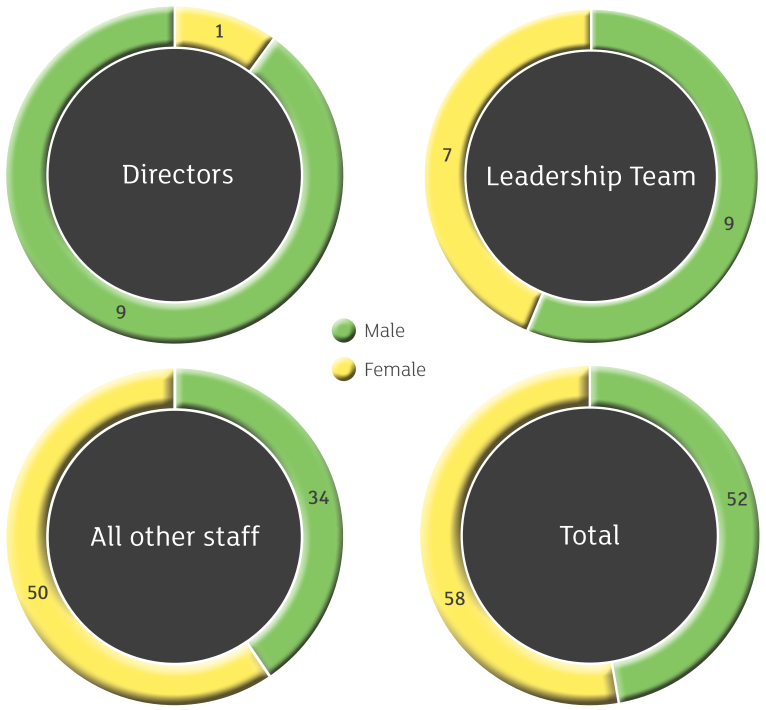
We are a values driven business and we work hard at ensuring we understand the particular needs of our core Membership. To this end we undertake significant amounts of training relating to rural and agricultural issues. Our satellite office, The Barn, near Tiverton plays an important part in the development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

We are active members in the mutual movement including Association of Financial Mutuals (AFM) and International Cooperative and Mutual Insurance federation (ICMIF).

Wherever possible we try to add value to our relationships with our Members and enhance our dealings with them. In the period under review, Board members, executives and other colleagues have engaged with our Members at shows and events on average once a week.

Employees

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 fulfill Member expectations and to help us maximise opportunities for our staff. Over a third of our staff work non-typical hours which enables them to balance work with other commitments and maintain their career aspirations.

Suppliers

Cornish Mutual engages with a variety of third party suppliers to deliver our desired business outcome We ensure that decisions regarding Member outcomes where Cornish Mutual are the contracting party, for example whether a claim should be paid and how much, are always retained within the business. We have no appetite to outsource any of this core activity to third parties; the outcomes of this activity are critical to the delivery of our business objectives. Where a supplier can add value to our relationship with our Members, and where the service is ancillary to the service Cornish Mutual provides, by, for example, the provision of advice lines, such services will be utilised.

Our relationship with suppliers is governed by the Board Policy on Outsourcing and Supply Chain Management.

Community and the Environment

We strive to be a responsible member of the communities in which we operate. We have supported individuals through work placements and have further enhanced our support for Young Farmers across the areas where we do business. We have continued to support staff in giving time to charities: this year we have worked with National Animal Welfare Trust, St Margaret's Hospice, Penwith Landscape Partnership and United Response. Additionally, we have continued our support to the agricultural charities. Please see the Corporate Social Responsibility area of our website for more information on our community engagement.

On behalf of the Board

M. Schwarz

Margaret Schwarz
Company Secretary

December 2019

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 2019 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 internally or by third parties. 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 2019 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. 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 and in particular when reviewing the annual financial statements with the external auditors.

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;
- How a culture of risk awareness is embedded throughout the organisation.

The Board annually reviews the ORSA Policy which sets out the process to be followed by the Company in future years, individual roles and responsibilities and the timetable, recording and reporting processes. The annual ORSA Report is available to regulators and quarterly returns are submitted updating major changes and latest financials 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. A significant change in reinsurance coverage, moving from quota share to stop loss was evaluated during 2019. As a result of this review, a new stop loss reinsurance programme commenced from October 2019 following board approval. This substantial change will be fully documented in the January 2020 ORSA report.

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 led 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. On his appointment as Managing Director, Peter Beaumont will continue to perform this function.

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 component in support of its audit remit as part of their statutory audit of the Annual Report and Financial Statements.

Employees of the Company who have the necessary specialist knowledge and experience are discharging the duties of the function. The methodology deployed and outcomes derived are reviewed and discussed at the Risk and Audit Committee through review of the Actuarial Function Report on Technical Provisions and the management accounts analysis and commentary. In addition the reserves are reviewed by an independent general insurance actuary, most recently by PwC as part of the annual audit and the results of the work performed are discussed at the RAC meeting. RAC reviews the basis of the Company's claims reserving methodology each year and a part of this is to seek such independent assurance periodically on a risk assessed basis. In 2018 and 2019 as part of their audit PwC used an independent projection approach, utilising their independent reserving model and this basis was also deployed in 2019. This, along with the review and challenge of the reserves documentation and calculation, has provided assurance that the methodologies used in assessing liabilities at 30 September 2019 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 into 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 by 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 also covers all our increasing 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 in accordance with an agreed Audit Universe which follows a three year cycle.

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 four year cycle from experts in different fields and from the Company's external auditors. The internal Validation and Support framework provides a comprehensive audit of operational processes in accordance with an agreed annual review cycle. No systemic problems were identified in 2019.

During the year ended 30 September 2019 the following internal audit reports were reviewed and management actions agreed:

- Underwriting and pricing review
- Farming policy migration thematic review
- Data and Data Quality Review

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 reports to the RAC and thence to the Board any breaches of regulation that may occur. No compliance breaches were reported in the year ended 30 September 2019.

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 2019. 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 Board policies which have a Risk or Audit relevance according to a prescribed periodic schedule and on an ad hoc basis as required. The RAC examined the contents in its Schedule of Matters which was 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.

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 2019 and confirmed focus on the following areas of audit emphasis:

- Risk of Fraud in revenue recognition;
- Risk of Management override of controls;
- 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.

The RAC met in November 2019 to receive a detailed presentation from PwC in respect of the audited Financial Statements for the year ended 30 September 2019. 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

Last year the PRA 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, meaning that the exemption applies to Cornish Mutual for the year ended 30 September 2019. PwC continue to perform the review of Technical Provisions, own funds and other elements which feed into the capital disclosures in the Financial Statements.

Business Continuity Planning (Disaster Recovery)

The Committee received reports on the testing of disaster recovery plans during 2018 and noted that further improvements in systems resilience and back-up had been developed during the year ended 30 September 2019 incorporating the agreed PFK Littlejohn audit recommendations. 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.

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;
- Financial risk from climate change (newly identified in 2019).

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 existing quota share reinsurance arrangements and providers was undertaken during 2019 resulting in the deployment of a new Stop Loss reinsurance programme from October 2019.

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 Nomination 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 Prudential Regulatory Authority (PRA) and Financial Conduct Authority (FCA), which oversee compliance with prudential and conduct standards. As a member of the Association of Financial Mutuals (AFM), CMA complies with the AFM Corporate 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 intervaluation period. During the last financial year, the Board authorised deficit recovery contributions as required by the Schedule of Contributions and the Company was 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 following a further review at the time of the 2019 valuation. 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 111% funded on a technical provisions basis at the full triennial valuation completed for 31 July 2019.

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 Davies
Chairman, Risk and Audit Committee
10 December 2019

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 2019. The Terms of Reference of the Committee are published as Appendix 4 of the Board Charter, which is available on the company website.

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 the assets 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 2019, the Committee membership and attendance was as shown in the Governance report on page 16. The Board requires the Committee to be independent Non-Executive Directors. All Directors of the Board are invited to attend meetings of the Committee. There were no changes to the Committee membership and Chairman during the year.

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, i.e. the Solvency Capital Requirement (SCR) and 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 five 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.

The Committee also benefitted from continued input from Insight and the Cornish Mutual Finance team to provide a more granular analysis of the market risk arising from different investment scenarios.

During the year we commenced the process of planning for the impending changes to our reinsurance arrangements. An implication of these changes is likely to be an increased level of funds available to invest and held to meet claims liabilities that would previously have been met by our quota share reinsurers. A further implication is expected to be an increased level of capital allocated to meet the potential insurance risks in our business and an associated need to more tightly control the capital allocated to meet the potential investment risks in our business. By commencing the process now the Committee expects to be ready to propose the investment approach arising from the reinsurance changes in a timely manner.

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 and latterly as our sole investment manager. Insight manages a total portfolio of more than £713 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.

As part of establishing our comfort with Insight we have enhanced our performance review process to take better account of the risk in the portfolio. We have also had discussions with other investment managers to gain a better understanding of the different investment approaches for a portfolio such as ours and the strengths, weaknesses and costs of these. We have also considered various market performance data to establish an effective peer universe against which to compare Insight. As a result of this activity and in light of good performance overall during the period we remain comfortable with our choice of investment manager. We are conscious though of the future changes to our investment portfolio arising from the reinsurance changes identified above and so will revisit this work once these are finalised.

The ICMC have felt able to endorse the investment strategy adopted and once more 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 rebalancing 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;
- 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 2019 the total value of investment assets was £31.87 million, analysed as follows:

	£m
Collective investments funds	29.60
Freehold property partially occupied	2.27
Total investments	**31.87**

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 addition to the Insight Broad Opportunities fund, we have a smaller though material exposure to 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).

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.

In addition to long-term investments we hold liquid financial instruments such as cash to meet short-term liabilities. We then have holdings of shorter-term money market funds, also managed by Insight, and able to deliver cost-effective diversification across a range of liquid investments with a high overall credit rating.

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. Climate change and its associated risks, will increasingly be a focus of discussions for the Company, and will require consideration by the ICMC.

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

10 December 2019

Introduction

The Remuneration and Nomination 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 meeting on 11 June 2019. 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 policies and practices including the remuneration of the Chairman of the Board, Non-Executive Directors (NEDs), Executive Directors and other members of the Executive team and to make recommendations to the Board for approval. In respect of nominations, the Committee's purpose is to drive the succession planning process for the Board by identifying suitable candidates through a formal, rigorous and transparent process, nominating as appropriate those deemed most suitable for appointment to the Board.

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 shown in the Governance Report.

The Committee is comprised solely of Non-Executive Directors although the Board Chairman, Managing Director, Insurance Director and Company Secretary also attended meetings during the year. All Directors of the Board are invited to attend meetings of the Committee but only those appointed as members may vote on Committee reserved matters. The Committee meets without the Executive attendees as and when the Committee Chair 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.

During the year Roger Cawse stepped down as Chair of the Committee and continues as a member of the Committee. The Board would like to record their grateful thanks to him for his expert guidance over 3 years in this role as well as thanking him for continuing as a valued member of the Committee.

Key Activities

In the year to 30 September 2019, the Committee met twice formally to deal with all matters duly scheduled. These included:

- Recruitment of new the Managing Director;
- Review of the Company's remuneration policy, including pay and benefits;
- Review of relevant issues on the risk register, ensuring that the risks are mitigated;
- Review of the Committee terms of reference;
- Review of the Managing Director recruitment process and lessons learned for all future Board level appointments;
- Oversight of the annual Board and Committee self-assessment process.

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

Remuneration Matters

Directors' Remuneration Report

During the year public debate has continued on many issues around executive pay. The Committee and all members of the Board recognise the sensitivities when determining appropriate levels of rewards for Board members. On the one hand there is the duty to attract and retain people with the skills, expertise and personal values to manage the Company successfully; on the other hand all Board members are acutely aware that Members expect restraint to be exercised when setting remuneration levels.

The Board reviewed and approved the Company's policy on pay at its meeting on 21 May 2019.

The Committee has continued to review levels of remuneration paid to Executive and Non-Executive Directors in financial services generally and in financial mutuals in particular. The Company had advice on levels of Board pay in the sector from the executive search firm it used to assist in the Managing Director recruitment. Having reviewed Executive and NED remuneration the Board believes that the remuneration packages in place for Executive Directors are fair and appropriate, enabling the Company to attract and retain suitable candidates and to achieve long-term sustainable success.

Remuneration of NEDs must reflect the time commitment required and responsibilities of the role. The demands on NEDs continue to grow, for example NEDs are expected to spend more time in the business to increase their contact with the staff team. A review of NED remuneration showed the current fees are lower than those found elsewhere in the peer group. Nevertheless the Committee recommended to the Board that NED remuneration should remain unchanged; this followed a freeze on NED remuneration in the previous year too.

The PRA has detailed the approach to be taken regarding variable remuneration. As Cornish Mutual continues in its policy of not incentivising any staff through commissions, long term incentive payments or other practices that could incentivise behaviours inconsistent with the Company's values, we have not had to make any adjustments to comply.

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

Given that the Company has fewer than 250 employees it is not subject to compulsory reporting on gender pay. Nevertheless, this year the Committee looked in-depth at the gender pay gap as part of its work to stimulate more diversity across the business and amended its terms of reference and schedule of matters to include responsibility for monitoring the gender pay gap in the Company and recommending action to the Board. The Committee and Board will continue to work to improve inclusivity in the Company.

Nominations Matters

On an annual basis the Committee reviews the skills required on the Board and the extent to which they are currently met. A skills matrix will be used when drawing up requirements for future Board recruitment. Benchmarking against other financial mutuals, the Committee has noted the trend towards smaller Boards; in future recruitment rounds, particularly with the Company's geographical constraints, achieving a smaller Board at the same time as ensuring an appropriate mix of skills, knowledge and experience could be challenging.

During the year, the Board commissioned an independent audit of the culture of the Company giving people across the business opportunities to give their views on the existing culture and how it might be improved in the future. The Board is incorporating the feedback into its ongoing appraisal of Board effectiveness and will give this due regard when considering future nominations to fill any Board vacancies.

The Committee's most critical nomination matter this year has been the search for a new Managing Director following notification from Alan Goddard that he was intending to retire by the end of 2019.

The Company retained the services of Tony Hodgins from Wheale Thomas Hodgins PLC who has experience of sourcing Senior Executives and NEDs for the business and for other financial service businesses including other mutuals. The Company has high standards which the Board reflected in the specification for the new Managing Director. Following an extensive search for candidates with the required levels of experience, commitment to mutuality and commitment to being located in Cornwall, six candidates were interviewed including one internal candidate. The internal candidate, Finance Director Peter Beaumont, was appointed by the Board to become Managing Director from 1 October 2019.

Sue Turner
Chairman, Remuneration and Nomination Committee
10 December 2019

THE CORNISH MUTUAL ASSURANCE COMPANY LIMITED | YEAR ENDED 30 SEPTEMBER 2019

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 2019 and of its loss 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 2019; the Statement of Profit and Loss, 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.

We have provided no non-audit services to the company in the period from 1 October 2018 to 30 September 2019.

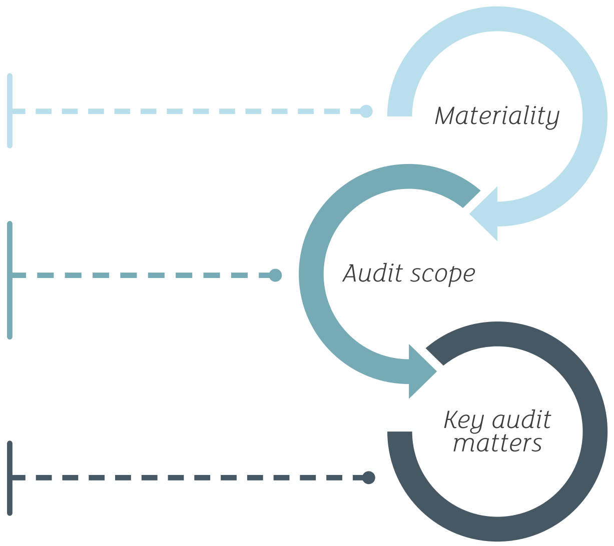
Our audit approach

Overview

Overall materiality: £212,617 (2018: £229,461), 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.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of conduct and prudential regulations as implemented by the Financial Conduct Authority and Prudential Regulation Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, Financial Conduct Authority and Prudential Regulation Authority. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journals to manipulate revenue or expenditure and management bias in accounting estimates used in the valuation of claims reserves process. Audit procedures performed by the engagement team included:

- Discussions with management and the Risk and Audit Committee of any known or suspected instances of non-compliance with laws and regulation and fraud;
- Review of financial statement disclosures;
- Review of board minutes and internal audit reports;
- Review of correspondence with the FCA and PRA; and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations.

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. Also, 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.

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 includes 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 year end of £17.5m 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 2019 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 year end 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 34 of the Report of the Risk and Audit Committee, page 59 (Accounting policies), page 64 (Sources of estimation uncertainty) and page 65 (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 and tested specific relevant controls; - We used actuarial specialists to independently estimate the best estimates of the 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	£212,617 (2018: £229,461).
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 £10,631 (2018: £11,473) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

Reporting obligations	Outcome
The Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or The Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.	We have nothing to report in respect of the above matters. 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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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 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, ISAs (UK) require us also to report certain opinions and matters as described below.

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 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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.

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 16, 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:

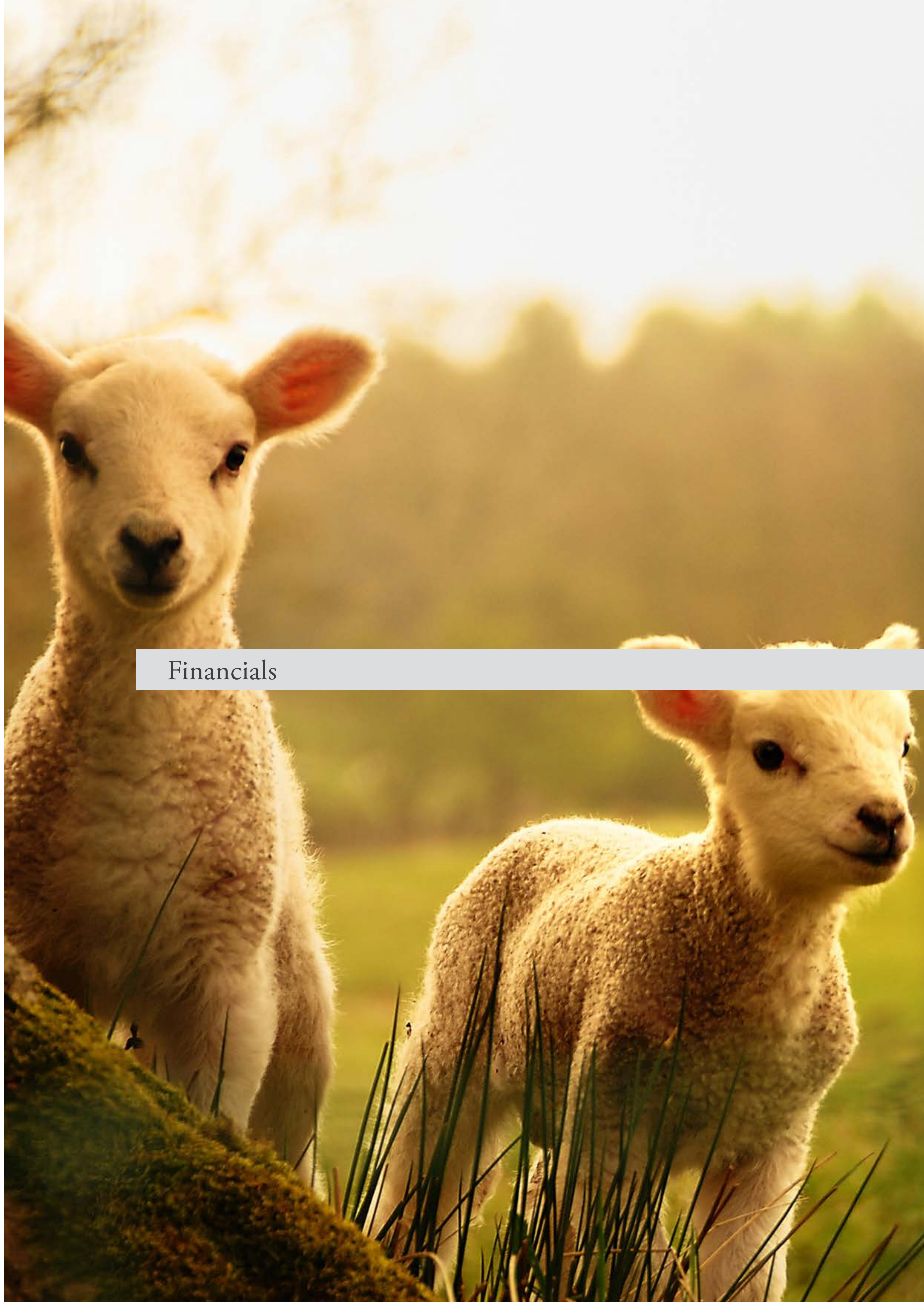
- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified 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 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 3 years, covering the years ended 30 September 2017 to 30 September 2019.

Sue Morling (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
10 December 2019



STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 30 SEPTEMBER 2019	Note	2019 £	2018 £
TECHNICAL ACCOUNT - GENERAL BUSINESS			
Gross premiums written		23,649,127	23,436,672
Outward reinsurance premiums		(12,969,067)	(12,892,280)
Written premiums, net of reinsurance		10,680,060	10,544,392
Change in gross provision for unearned premiums		(194,522)	(435,838)
Change in provision for unearned premiums, reinsurers share		60,157	462,444
Change in net provision for unearned premiums		(134,365)	26,606
Earned premiums, net of reinsurance	7	10,545,695	10,570,998
Other technical income	10	2,564,055	2,820,673
Total technical income		13,109,750	13,391,671
Gross claims paid		12,048,054	13,498,900
Reinsurers' share of claims paid		(5,695,352)	(6,636,005)
Claims paid net of reinsurance		6,352,702	6,862,895
Change in gross provision for claims		3,307,080	327,196
Change in reinsurers' share		(1,595,530)	(37,412)
Change in net provision for claims		1,711,550	289,784
Claims incurred net of reinsurance	8	8,064,252	7,152,679
Net operating expenses		5,887,556	5,849,844
Total technical charges		13,951,808	13,002,523
BALANCE ON THE TECHNICAL ACCOUNT		(842,058)	389,148

STATEMENT OF PROFIT AND LOSS	Note	2019 £	2018 £
NON-TECHNICAL ACCOUNT			
Balance on the general business technical account		(842,058)	389,148
Investment Income	14	697,684	698,601
Investment expenses and charges	16	(107,514)	(116,215)
Other charges	17	(1,089,506)	(980,574)
LOSS PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		(1,341,394)	(9,040)
Tax credit on profit on ordinary activities	18	0	176,841
LOSS/(PROFIT) FOR THE FINANCIAL YEAR AFTER TAX		(1,341,394)	167,801

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 SEPTEMBER 2019	2019 £	2018 £
(LOSS)/PROFIT FOR THE FINANCIAL YEAR AFTER TAX	(1,341,394)	167,801
Fair value adjustment to subsidiary carrying value	0	(312,453)
Remeasurement of net defined benefit pension scheme	(343,004)	(293,004)
Deferred tax on actuarial change in the pension scheme	0	0
OTHER COMPREHENSIVE LOSS FOR THE YEAR NET OF TAX	(343,004)	(605,457)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	(1,684,398)	(437,656)
ATTRIBUTABLE TO THE OWNERS OF THE COMPANY	(1,684,398)	(437,656)

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

STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2019		2019	2018
	Note	£	£
ASSETS			
INTANGIBLE ASSETS			
Other intangible assets	19	50,088	79,959
		50,088	79,959
INVESTMENTS			
Land and buildings	20	2,270,000	2,270,000
Other financial investments	21	29,595,943	29,075,720
Investment in subsidiary undertaking		0	3
		31,865,943	31,345,723
REINSURERS SHARE OF TECHNICAL PROVISIONS			
Provision for unearned premium	7	6,560,423	6,500,267
Claims outstanding	22	8,082,557	6,487,026
		14,642,980	12,987,293
DEBTORS			
Debtors arising out of direct insurance operations - policyholders		5,782,510	5,683,152
Debtors arising out of reinsurance operations		2,508,430	3,318,003
Other debtors	23	54,751	0
		8,345,691	9,001,155
OTHER ASSETS			
Tangible assets	24	410,622	330,488
Stock		5,315	8,422
Cash at bank and in hand		1,086,656	647,821
		1,502,593	986,731
PREPAYMENTS AND ACCRUED INCOME			
Prepayments and accrued income		709,379	333,367
TOTAL ASSETS		57,116,674	54,734,228

STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2019		2019	2018
	Note	£	£
LIABILITIES			
CAPITAL AND RESERVES			
Members' funds		21,261,667	22,946,065
GROSS TECHNICAL PROVISIONS			
Provision for unearned premium	7	11,918,285	11,723,764
Claims outstanding	22	17,478,589	14,171,508
		29,396,874	25,895,272
CREDITORS			
Arising out of reinsurance operations		3,813,768	3,340,607
Other creditor including taxation and social security	28	1,114,283	1,017,877
		4,928,051	4,358,484
ACCRUALS AND DEFERRED INCOME			
Accruals and deferred income		1,530,082	1,534,407
TOTAL LIABILITIES		57,116,674	54,734,228

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 10 December 2019.

I J Pawley	**P S Beaumont**	**A Goddard**
Director	Director	Managing Director

STATEMENT OF CHANGES IN MEMBERS' FUNDS FOR THE YEAR ENDED 30 SEPTEMBER 2019	Profit and loss	Total
	£	£
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 expense for the year	(437,656)	(437,656)
Balance as at 30 September 2018	22,946,065	22,946,065
Balance as at 1 October 2018	22,946,065	22,946,065
Loss for the financial year after tax	(1,341,394)	(1,341,394)
Other comprehensive (loss) / gain for the year	(343,004)	(343,004)
Total comprehensive expense for the year	(1,684,398)	(1,684,398)
Balance as at 30 September 2019	21,261,667	21,261,667

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 SEPTEMBER 2019	2019	2018
	£	£
NET CASH GENERATED FROM OPERATING ACTIVITIES	616,896	(726,648)
CASH FLOW FROM INVESTING ACITVITIES		
Interest Received	230	169
Rental income	69,718	122,303
Net cash invested in financial investments	0	55,498
Payments to acquire tangible fixed assets	(248,009)	(281,769)
	(178,061)	(103,799)
NET INCREASE/(DECREASE) IN CASH AT BANK AND IN HAND	438,835	(830,447)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	647,821	1,478,268
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	1,086,656	647,821

RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES	2019	2018
	£	£
Transfer from Technical Account	(842,058)	389,148
Other Charges	(1,089,506)	(980,574)
OPERATING (LOSS)	(1,931,564)	(591,426)
Increase in outstanding premiums	(99,358)	(250,430)
Increase in debtors and accrued interest	(430,763)	(129,534)
Decrease in claims outstanding	1,711,550	289,784
Increase in reinsurance creditors	473,161	202,427
Increase in reinsurance debtors	809,573	(542,206)
Decrease / (Increase) in stock	3,107	130
Increase in other creditors	92,081	128,530
Increase/(decrease) in provision for unearned premium	134,365	0
Depreciation	197,745	173,220
Adjustment for fair value revaluation	3	312,470
Adjustment for pension funding	(343,004)	(293,004)
NET CASH GENERATED FROM/USED IN OPERATING ACTIVITIES	616,896	(726,648)

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 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 13.

Insurance contracts

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

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

a) Premiums

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

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

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

b) Unearned premiums

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

c) Acquisition costs

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

d) Claims incurred

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

e) Claims provisions and related reinsurance recoveries

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

Provisions are calculated gross of any reinsurance recoveries.

f) Reinsurance

Contracts entered into by the Company with reinsurers, under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts. Under the quota share arrangement we receive commission, to cover the expenses incurred which relate to the insurance contract. This is recognised within Other Technical Income within the Profit and Loss.

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

Net operating expenses

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

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

Investment income and expenses

Investment income comprises interest and dividends received, together with realised investment gains and rental income. Realised gains and losses are calculated as the difference between sales proceeds and the original cost. 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.

3. ACCOUNTING POLICIES (continued)

Employee benefits

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

a) Short term benefits

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

b) Defined contribution pension plans

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

c) Defined benefit pension plan

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

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

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

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

The fair value of the plan assets 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

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

Software	4 years

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

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

Land and buildings

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

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

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

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

Tangible assets

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

3. ACCOUNTING POLICIES (continued)

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.

Investments

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

Financial instruments

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

A Financial assets

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

1. Fair value through profit and loss

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

2. 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 £17,478,589 (2018: £14,171,508).

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

ii) Defined benefit pension scheme

The Company has obligations to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, asset valuations and the discount rate on corporate bonds. Annually, the Company engages independent actuaries to calculate the obligation. See Note 27 for the disclosures relating to the defined benefit pension scheme. The carrying value of the net scheme liability is £nil (2018: £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
2019			
Motor	10,527	3,948	6,579
Property	4,900	2,956	1,944
Commercial Packages	2,052	1,179	873
Total	**17,479**	**8,083**	**9,396**
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**

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	2014	2015	2016	2017	2018	2019	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of ultimate claims costs:							
At end of reporting year	15,489	11,637	12,609	13,602	15,594	15,929	
One year later	13,826	10,299	11,504	12,780	15,265	-	
Two years later	14,446	10,524	11,261	12,410	-	-	
Three years later	13,852	10,305	11,436	-	-	-	
Four years later	13,742	10,526	-	-	-	-	
Five years later	13,736	-	-	-	-	-	
Current estimate of cumulative claims	**13,736**	**10,526**	**11,436**	**12,410**	**15,265**	**15,929**	
Cumulative payments to date	(13,570)	(9,911)	(10,234)	(10,045)	(11,990)	(7,109)	
Liability recognised in the balance sheet	**165**	**615**	**1,202**	**2,365**	**3,275**	**8,819**	**16,441**
Liability in respect of earlier years							1,038
Provision in balance sheet							**17,479**

Table includes rounding differences

Claims incurred and outstanding net							
Reporting year	2014	2015	2016	2017	2018	2019	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	8,347	
One year later	2,505	6,346	6,565	7,135	7,965	-	
Two years later	2,495	6,464	6,319	6,987	-	-	
Three years later	2,464	6,257	6,377	-	-	-	
Four years later	2,562	6,386	-	-	-	-	
Five years later	2,507	-	-	-	-	-	
Current estimate of cumulative claims	**2,507**	**6,386**	**6,377**	**6,987**	**7,965**	**8,347**	
Cumulative payments to date	(2,462)	(6,028)	(5,842)	(5,770)	(6,286)	(3,823)	
Liability recognised in the balance sheet	**44**	**358**	**535**	**1,217**	**1,679**	**4,525**	**8,358**
Liability in respect of earlier years							1,038
Provision in balance sheet							**9,396**

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	4,709	20%	942	(942)	377	(377)
Property	3,473	15%	521	(521)	313	(313)
Commercial Packages	1,704	15%	256	(256)	154	(154)
Total	9,886		1,719	(1,719)	844	(844)
Uncorrelated diversified			1,106	(1,106)	514	(514)

The £9,886k (2018: £6,814k) makes up 57% (2018: 48%) of the total claims provision of £17,479k 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 7.3% gross loss ratio (2018: 4.8%) and 7.9% (2018: 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 4.7% (2018: 3.0%) effect on gross loss ratios and 4.8% (2018: 3.6%) on net loss ratio.

Since we do not know which claims might develop, we cannot say which elements of the reinsurance program would respond. In arriving at the net figure, we have assumed that the quota share will respond 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 (2018: £527k) gross and £316k (2018: £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' 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 following table 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 2019	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	9,396	3,946	2,725	1,315	1,409
Creditors	1,114	1,114	-	-	-

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	-	-	-

c) Operational Risk

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

d) Capital Management

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

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

The amount of own funds calculated on a Solvency II basis is £23.1m as at 30 September 2019 (2018: £24.6m).

6. SEGMENTAL INFORMATION

2019	Motor	Property	Accident & Health	Liability	Marine, Aviation & Transport	Total
	£	£	£	£	£	£
Gross premiums written	13,075,564	7,410,091	137,859	3,025,225	387	23,649,127
Gross premiums earned	12,975,821	7,321,354	138,168	3,015,306	3,957	23,454,605
Gross claims incurred	(12,279,656)	(2,354,680)	(59,282)	(660,874)	(643)	(15,355,134)
Reinsurance claims recoverable	5,577,990	1,336,857	0	375,631	404	7,290,882
Operating expenses	3,857,607	2,186,155	40,672	892,514	114	6,977,062

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

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
2019	£	£	£
Premiums receivable	23,649,127	12,969,067	10,680,060
Unearned premiums carried forward	11,918,285	6,560,423	5,357,862
Unearned premiums brought forward	(11,723,764)	(6,500,267)	(5,223,497)
Decrease	(194,521)	(60,156)	(134,365)
Premiums earned	23,454,606	12,908,911	10,545,695
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	(11,287,925)	(6,037,822)	(5,250,103)
Decrease	(435,838)	(462,445)	26,606
Premiums earned	23,000,834	12,429,835	10,570,999

8. CLAIMS INCURRED NET OF REINSURANCE

	Gross	Reinsurance	Net
2019	£	£	£
Claims paid	12,048,054	5,695,352	6,352,702
Outstanding claims carried forward	17,478,589	8,082,557	9,396,032
Outstanding claims brought forward	(14,171,508)	(6,487,026)	(7,684,482)
Increased / (Decrease)	3,307,081	1,595,531	1,711,550
Claims incurred	15,355,135	7,290,883	8,064,252
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

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

A favourable run off of £573k gross was experienced during the year in respect of the development of opening claims provisions of £14,172k from previous years (2018 – £1,768k favourable experience on £13,844k). After reinsurers' share, favourable development for the year was £266k (2018: £894k).

10. OTHER TECHNICAL INCOME

	2019	2018
	£	£
Instalment scheme administration charge	284,301	280,229
Commission	2,279,754	2,540,444
	2,564,055	2,820,673

11. STAFF COSTS

	2019	2018
	£	£
Wages and salaries	3,576,348	3,508,846
Social security costs	403,626	379,276
Other pension costs	258,920	303,562
	4,238,894	4,191,684

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

	2019	2018
Management and Directors	10	11
Underwriting and claims	100	101
	110	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 2019 the Company made contributions to the schemes of £210,562 (2018: £192,507).

12. DIRECTORS' REMUNERATION

	2019	2018
	£	£
Directors emoluments (including benefits in kind)	656,845	570,655
National Insurance	76,938	64,360
Other pension costs	54,058	45,200
	787,841	680,215

Detailed amounts paid to Directors including the amount paid to the highest paid Director are disclosed within the Report on Corporate Governance on page 31.

13. KEY MANAGEMENT COMPENSATION

	2019	2018
	£	£
Management and Directors	747,383	748,936

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

14. INVESTMENT INCOME

	2019	2018
	£	£
Income from Land & Buildings	69,718	122,303
Income from listed investments	7,399	4,105
Income from other investments	230	169
Dividend from subsidiary	0	312,470
	77,347	439,047

Gains on the realisation of investments	0	852,533
Less accumulated unrealised gains from prior years	0	(828,207)
Profit on disposed investments	**0**	**24,326**

Unrealised gain / loss on retained investments	**620,337**	**235,228**
Total investment gains / (losses)	**620,337**	**259,553**
Total investment income	**697,684**	**698,601**

15. AUDITORS' REMUNERATION

Audit fees including VAT amounted to £86,157 (2018 - £91,409). No fees were paid, in the current or prior year, in respect of any other services. Of this amount £24,600 related to our Solvency II audit in 2018.

16. INVESTMENT EXPENSES AND CHARGES

	2019	2018
	£	£
Investment management expenses	107,514	116,215

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

	2019	2018
	£	£
Directors' remuneration (see note 12)	721,053	635,015
Company Secretary's remuneration	36,481	35,731
Auditors' remuneration (see note 15)	86,157	91,409
Directors' contribution to staff pension scheme	48,070	45,200
Depreciation	165,640	125,008
Amortisation	32,105	48,211
	1,089,506	980,574

18. TAXATION
(a) Analysis of charge in period

	2019	2018
	£	£
Total current taxation	**0**	**0**

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

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 (19%). The differences are explained below:

	2019	2018
	£	£
Profit on ordinary activities before tax	(1,341,394)	(9,040)
Profit on ordinary activities multiplied by the full rate of tax in the UK, 19% (2018:19%)	(254,866)	(1,718)
Effects of:		
Expenses not deductible in determining taxable profit	2,743,223	2,544,260
Timing differences between capital allowances and depreciation	4,106	1,146
Deferred tax not recognised	64,821	(4,222)
Income exempt from taxation	(2,614,488)	(2,625,569)
Group income exempt from tax	0	(59,369)
Tax charge arising from changes in pension funding	(65,170)	(55,670)
Tax increase/(decrease) on latent gains	114,748	23,706
Adjust closing deferred tax to average rate of 19%	1,521	0
Adjust opening deferred tax to average rate of 19%	6,105	(6,105)
Adjustment in respect of prior year	0	6,700
Total tax charge for period (see (a))	0	(176,841)

19. OTHER INTANGIBLE ASSETS

	Software Costs	Total
COST	£	£
At 1 October 2018	741,357	741,357
Additions	2,235	2,235
At 30 September 2019	743,592	743,592
PROVISION FOR DEPRECIATION		0
At 1 October 2018	661,398	661,398
Charge for the year	32,106	32,106
At 30 September 2019	693,504	693,504
NET BOOK VALUES		0
At 30 September 2019	50,088	50,088
At 30 September 2018	79,959	79,959

20. LAND AND BUILDINGS

	Freehold Property	Total
COST	£	£
At 1 October 2018	3,037,307	3,037,307
At 30 September 2019	3,037,307	3,037,307
PROVISION FOR DEPRECIATION	£	£
At 1 October 2018	767,307	767,307
At 30 September 2019	767,307	767,307
NET BOOK VALUES		
At 30 September 2019	2,270,000	2,270,000
At 30 September 2018	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 one third of the floor space of this property until March 2019. New tenants have now been identified.

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	
	2019	2018	2019	2018
	£	£	£	£
Collective investments	29,595,943	29,075,720	27,718,000	26,718,000
	29,595,943	29,075,720	27,718,000	27,718,000

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.

	2019	
	Level 1	Total
	£	£
Collective investments	29,595,943	29,595,943
	29,595,943	29,595,943

	2018	
	Level 1	Total
	£	£
Collective investments	29,075,720	29,075,720
	29,075,720	29,075,720

22. CLAIMS OUTSTANDING

General Business	£
Gross amount	
At 1 October 2018	14,171,508
Movement in provisions	3,307,081
At 30 September 2019	17,478,589
Reinsurance amount	
At 1 October 2018	6,487,026
Movement in provisions	1,595,531
At 30 September 2019	8,082,557
Net provisions	
At 30 September 2019	9,396,032
At 30 September 2018	7,684,482

23. OTHER DEBTORS

	2019	2018
	£	£
Other debtors	54,751	0

24. TANGIBLE ASSETS

	Furniture and Equipment	Total
COST	£	£
At 1 October 2018	1,165,826	1,165,826
Additions	245,773	245,773
At 30 September 2019	1,411,599	1,411,599
PROVISION FOR DEPRECIATION		
At 1 October 2018	835,338	835,338
Charge for the year	165,640	165,640
At 30 September 2019	1,000,978	1,000,978
NET BOOK VALUES		
At 30 September 2019	410,621	410,621
At 30 September 2018	330,488	330,488

25. PROVISION FOR DEFERRED TAXATION

	2019	2018
	£	£
Unrealised gains on investments	159,215	56,547
Fixed asset timing differences	9,254	7,002
Tax losses carried forward	(168,469)	(63,549)
Net deferred tax liability	0	0

Net provision for liability at start of period	0	176,841
Deferred tax charge in profit and loss	0	(176,841)
Provision for liability at the end of the period	0	0

Deferred tax provisions have been calculated at the rate of 17% (2018 - 17%) 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.

26. FINANCIAL INSTRUMENTS

	2019	2018
	£	£
Financial assets held at fair value through the profit and loss	29,595,943	29,075,720
Debt instruments measured at amortised cost	15,006,475	12,817,999
	44,602,418	41,893,719

Financial assets that are equity instruments measured at fair value	0	3
Financial liabilities measured at amortised cost	17,752,853	14,383,595

27. POST EMPLOYMENT BENEFITS

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

The Scheme's liabilities have been calculated by updating the valuation calculations carried out for the initial results of the formal valuation currently underway as at 31 July 2019. 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:

	2019	2018
Rate of increase in pensions in payment	3.50%	3.60%
Discount rate	1.90%	2.90%
Inflation assumption	3.50%	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 for 2019 follows the table known as S3NA with CMI 2018 projections using a long-term improvement rate of 1.25% per annum and an initial addition of 1% per annum. The mortality assumption for 2018 follows the table known as S2NA with CMI 2015 projections using a long-term improvement rate of 1.00% per annum. These can be summarised as follows:

Life expectancy at age 65	2019	2018
Male currently aged 45	24.2	23.2
Female currently aged 45	26.5	25.8
Male currently aged 65	22.8	21.9
Female currently aged 65	25.1	24.3

	2019
Changes in the fair value of the scheme assets are as follows:	£000's
Opening fair value of scheme assets	9,493
Interest income	276
Return on assets less interest	1,766
Contributions	386
Benefits paid	(243)
Administration cost	(95)
Closing fair value of scheme assets	11,583

27. POST EMPLOYMENT BENEFITS (continued)

	2019
Changes in the present value of the defined benefit obligation are as follows:	£000's
Opening defined benefit obligation	9,493
Interest cost	224
Benefits paid	(243)
Experience gain on liabilities	(123)
Change in demographic assumptions	144
Changes to financial assumptions	1,565
Restriction to liability gain to derecognize overall surplus	523
Closing defined benefit obligation	11,583

	2019	2018
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	95	119
(Gains) / Losses on settlements and curtailments	-	-
Total operating charge	95	119
Analysis of the amount credited to other finance income:		
Interest return on pension scheme assets	(276)	(253)
Interest on pension scheme liabilities	224	227
	(52)	(26)
Total	43	93
Actual return on assets	2,042	639

29. POST EMPLOYMENT BENEFITS continued overleaf

27. POST EMPLOYMENT BENEFITS (continued)

The fair value of the plan assets can be summarised as follows:	2019	2018
Equity instruments		34%
Multi-asset funds	34%	18%
Absolute return bond funds	32%	15%
Cash	1%	3%
Liability driven investment	33%	30%

	2019	2018
The amounts recognised in the statement of financial position were are as follows:	£000's	£000's
Fair value of assets	11,583	9,493
Present value of funded obligations basic calculation	(9,410)	(7,843)
Surplus / (Deficit) in scheme	2,173	1,650
Restriction to surplus	(2,173)	(1,650)
Net Pension (Deficit)	nil	nil

The standard FRS102 calculation based upon the parameters disclosed above resulted in a surplus of £2,173k. In line with the standard, the surplus in the year was not recognised. This was done to reflect the fact that there is not an unconditional right to the surplus and a benefit to the company is not anticipated to arise e.g. a refund of contributions or a reduction of contributions towards the recovery plan agreed with the pension trustees.

28. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2019	2018
	£	£
Trade creditors	199,881	140,106
Other taxation and social security costs	840,019	805,791
Other creditors	74,383	71,981
Corporation tax	0	0
Amounts owed to a subsidiary undertaking	0	0
	1,114,283	1,017,878

29. TRANSACTIONS WITH RELATED PARTIES

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

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

Total premiums on policies held by related parties amount to £60k of which £14k was still due at the year-end through normal use of instalment payment terms available to all Members. £10,033 of premium was on personal lines policies for which the relevant Directors have received a staff reduction.

Claims on policies held during the year gave rise to payments of £20k with a further £3,025 provided as a provision for future payments against these claims.

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

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

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

30. FINANCIAL COMMITMENTS

	2019	2018
a) Operating lease commitments as lessee	£	£
Expiry date:		
- within one year	186,097	165,530
- between one and five years	164,223	254,260
- after five years	40,000	60,000
	390,320	479,790
b) Operating lease commitments as lessor	£	£
Expiry date:		
- within one year	0	42,960
	0	42,960

The cost recognised in profit and loss in respect of operating lease commitments in the current year was £207,738 (2018 – £201,704).

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.

Cornish Mutual

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Authorised by the Prudential Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority

Chartered Insurers