ANNUAL REPORT & FINANCIAL STATEMENTS 2021/2022

Cornish Mutual

INDEX

Our Enduring Purpose

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

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

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

We are committed to developing our services based on how our Members wish to deal with us. Mindful that technology continues to influence our ways of working in both farming and insurance, we are focused on how technology can help, not replace, our personal approach.

Our strategic review in 2020 determined we would extend our services beyond insurance. This is a developing theme within general insurance and is particularly relevant for a member-owned insurer like Cornish Mutual, with a core focus on farming specifically, which is going through a significant period of change.

The Executive is pursuing a broad range of initiatives which meet our strategic objectives. These include increasing the efficiency of our internal systems and in doing so improving the quality of the roles we offer, updating and improving the insurance available to all our Members and developing loss prevention services for those who are farmers.

"At Cornish Mutual we continue to develop ways to help increase the resilience of our Members."

I am again pleased to present the annual report for Cornish Mutual.

The last twelve months have seen a return to a more usual pattern for the business following the Covid-19 challenges which were such a significant feature of the previous year. It has been particularly pleasing to get out and about during the show season to meet more Members socially after a two-year hiatus.

If we thought normality as we knew it would return, we were mistaken. The economy has experienced a degree of turbulence unlike that seen for a long while. The aftermath of the pandemic combined with the effects of Brexit, compounded by a war within Europe has presented a new working environment.

The effect of this on our Members is significant and one which we as a mutual organisation recognise. Inflation on agricultural inputs has been running at a rate at least twice that of general prices. While there has been some improvement in farm gate prices, in general terms they have lagged behind those of-inputs. Demands on working capital have increased significantly. This combined with a change in the way government support for the agricultural industry has been managed and administered means many of our Members are faced with changes and challenges within their businesses.

The weather during the past year has again been a talking point. Our farming Members particularly have also been impacted by the hot, dry weather during the summer of 2022 making less forage and having to use it earlier than planned in an attempt to maintain production. It seems that relatively extreme weather events are becoming more frequent and planning for them within our businesses is ever important. Internally we are spending time looking at issues around climate change, not only the issues which potentially affect our insurance book of business but also what we can do as an organisation to reduce our carbon footprint.

At Cornish Mutual we continue to develop ways to help increase the resilience of our Members. This may be to improve risk management by providing tools to reduce the risk of fires in stored crop through to assisting with the management of business health and safety practices.

By working with our Members to share and transfer knowledge we provide support to the community we serve beyond that of day-to-day insurance needs. As part of our strategic aims we continue to look for more ways we can provide benefit to our Members and their businesses.

At Board level, Roger Cawse stood down at the last AGM having completed a six-year term. I would like to express my thanks to Roger for the quiet, thoughtful contribution he brought to the Board and the wider business. Having considered its size and future succession, the Board intends seeking additional Non-Executive Directors over the next two years. More information on this can be found under the Remuneration and Nomination Committee report compiled by its Chair Sue Turner on page 53.

I would like to take this opportunity to thank the management and staff within the business for their hard work and their ability to be ever positive about the challenges which lie ahead. As a mutual organisation Cornish Mutual is here to serve its Members without recourse to outside interests. We look forward to engaging with our Members in whatever format suits you, the Member, best.

Jeremy Oatey

Jeremy Oatey

13 December 2022

"Our strategy determines how we will deliver on our purpose into the future, developing our services to tackle a broader set of risks that face our Members."

When writing this strategic report, I reflected that every year seems to be an extraordinary one in some way. This continues to be the case.

Covid-19 has slipped into the background but has left the workplace considerably changed in its wake, at least for the moment.

The economic situation is highly conflicted with exceedingly low unemployment but with the joint threats of emerging inflation and a potential recession. With war in mainland Europe, and the huge impact this is having on the energy markets, it is barely believable we have an even more uncertain view of the future than our turbulent recent past.

Our strategy determines how we will deliver on our purpose into the future, developing our services to tackle a broader set of risks that face our Members.

Business growth will be a consequence of successfully executing these changes. The Executive has a broad view of organisational growth in terms of Members' Funds, relative capital strength, range of services offered, employee skills, culture, and importantly, the awareness and reputation of Cornish Mutual given these underpin our competitive advantage.

We aim to provide insurance to Members at as low a cost as we can while remaining sustainable. We plan for low margins intentionally to benefit our Members, but this results in long payback periods for any investment reliant on premium growth. Strategies for new services to run alongside our established insurance products need to be considered for their potential to meet our wider objectives, benefitting Members as well as being profitable and sustainable.

During 2021, we began piloting and distributing some new services in response to Member needs, determined through our knowledge of the sector and our farm risk survey. We are developing our own skills in these areas and working with third parties to provide new services in line with the challenges Members tell us they face. Members are well aware of these challenges but knowing where to start in overcoming them is often the concern. Building a trusted set of helpful services is a role Cornish Mutual can perform very well and directly answers this need.

We have launched a health and safety service which is designed to provide cost-effective, practical and proactive support for Members in reducing risks to themselves, their families, employees and visitors. Within this we have developed a new partnership to offer Members sensors for use in stored hay to highlight fire risk and the potential for uninsured costs resulting from lowered productivity.

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

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

P Beaumont
Managing Director

Strategic Report

The Directors present their Strategic Report on the Company for the year ended 30 September 2022.

Section 172

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

Our enduring purpose is that we work to protect the farming community. Our Membership is at the heart of everything we do. This is explored in both the Strategic Report, with details of our strategy on page 8, and in Section 1 of our Report on Corporate Governance on page 31. Our objectives focus on ensuring we are in a position to provide the best possible service to our Members.

Sections 2 to 5 of our Report on Corporate Governance (pages 31 to 32) set out the ways in which our governance structure enables service excellence by ensuring our Board and its individual Directors have the qualities, training and understanding to deliver on behalf of the Members.

Section 6 of our Report on Corporate Governance (page 33) provides further explanation of how we engage with each of our stakeholders. It is important the Board understands the needs of each stakeholder group and that these needs are always considered during discussions and in decision making. We are constantly seeking to put the Member at the centre of all our actions, and this is recognised by the Board when making decisions that will impact our Membership in the longer term.

Strategy and Objectives

Our strategy describes how we deliver our purpose. It is our plan for how we navigate the challenges we face and make the most of the opportunities we identify to protect a growing Membership.

Cornish Mutual is a company built on relationships. Our Members trust us to offer long-term value and deliver on our promises. Our value as a business lies in providing a level of fairness and service exceeding that which is found anywhere else. How we organise ourselves, how we act, the services we provide and the outcomes Members experience all contribute to a distinctive and unique organisation.

Excellent service is not a nice-to-have, it is the source of Cornish Mutual's competitive advantage. It is why Members stay with us and recommend us to others. High satisfaction brings exceptional Member loyalty and leading Net Promoter Scores (which measure the willingness of Members to recommend our services to others).

Given so many Members stay with us and recommend us, we do not spend large amounts on generating new business and focus, instead, on service delivery.

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

While building our digital services is important, maintaining person-to-person relationships is crucial and remains core to our strategy. Member loyalty and recommendation is the bedrock of our success and this in turn relies upon personal connection.

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

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

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

The Company needs to tackle its own environmental impact, just as our Members are having to, both in response to regulation and developing consumer demands around this important issue. The future of Cornish Mutual depends upon the farming community in the South West being successful in addressing these demands.

As a mutual, Cornish Mutual's future is rooted in the success of its Members. We are looking at how we can extend the services relating to protection to include a greater range to help maintain a resilient farming community, capable of navigating future change.

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

What makes us different

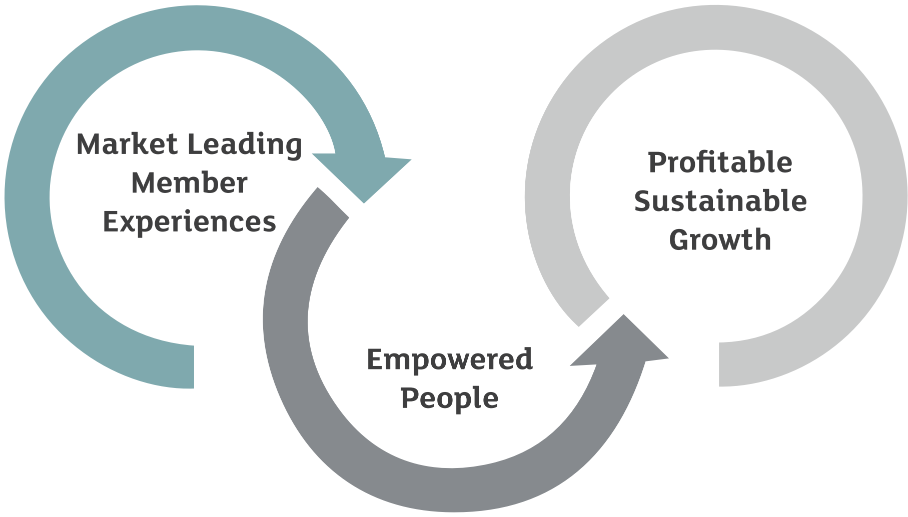
Cornish Mutual's competitive advantage comes from our relationships with stakeholders, particularly Members and employees. With ongoing modernisation, this is a sustainable position. Many industry commentators conclude customers want service-driven relationships with purpose-driven companies and employees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

Changes to insurance, changes to farming and rising consumer expectations are guiding how we develop our services strategically. How climate change is directly and indirectly impacting farming, and how we best manage the risks and opportunities this creates, is central to our strategy.

Our efforts will be spread between improving current services, advancing our insurance products and developing new services. Early indications show the new services we have been piloting are well received by Members.

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

Objectives



1. Market Leading Member Experiences

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

Our Members consistently recommend us, so we will maintain what Members value: we always do what we say we will do; offering consistent, stable pricing, and providing a fair and responsive claims service. Our consistent pricing approach, which protects loyal Members from paying higher prices than new customers has been vindicated. New rules from the regulator which seek to address this across the insurance industry have been challenging for some insurers. Cornish Mutual was already acting in line with the best practices introduced and therefore suffered no disruption.

We want Members to have access to the services they need and in a way that suits them. To this end, we are enhancing our current personal approaches with new digital options. We are also adding new protection services and developing our ability to signpost Members to information or other services that will help them navigate the significant changes farming is going through. These solutions need to reflect the helpful pragmatism our values require.

2. Empowered People

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

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

To support our continuous improvement and delivery for Members, our performance management focuses on behaviours, ensuring we actively work together and allow innovation to thrive, putting Members at the heart of every decision.

3. Profitable Sustainable Growth

Our objective of growing the business aims to extend the benefits of Cornish Mutual to a wider Membership. We are clear that our growth will continue to come from farmers and the farming community in the South West. To do this sustainably means combining growth with control over expenses and delivering sufficient profit to maintain an appropriate level of Members' Funds. The variable nature of claims means insurance results are inherently uncertain. We plan to make a profit over a five-year period, recognising there may be losses in some individual years.

The Company has a strong and sustainable financial position. Our overall cost structure is competitive and despite our relatively modest size, we have an expense ratio lower than the UK industry average according to data from our trade body, the Association of British Insurers (ABI). Holding sufficient capital allows us to take proportionate investment risk, generating investment income which supports and diversifies the insurance performance.

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

Inflation, which is particularly acute in the agricultural sector, has not been seen at current levels for many years. Encouraging Members to keep their level of insurance cover up to date, while dealing with the impact of increased claims costs, are dual challenges for the coming period.

Our insurance results are underpinned by our reinsurance strategy, which can significantly affect the balance between risk and return in our results. We have completed three years under new reinsurance arrangements which we forecast would benefit the insurance results over our five-year planning period, while still protecting our capital. This is discussed in more detail on page 16.

Our investments also contribute to our overall profit. We have seen two very large shocks to the financial system in recent times, the financial crisis in 2008 and the market response to the Covid-19 pandemic in 2020. A further shock and ongoing uncertainty around investment returns are being driven by global geopolitical issues which we cannot insulate ourselves from and our growth strategy will take account of this.

We seek to balance these sorts of investment risk with a reasonable level of return.

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

Key Performance Indicators

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

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

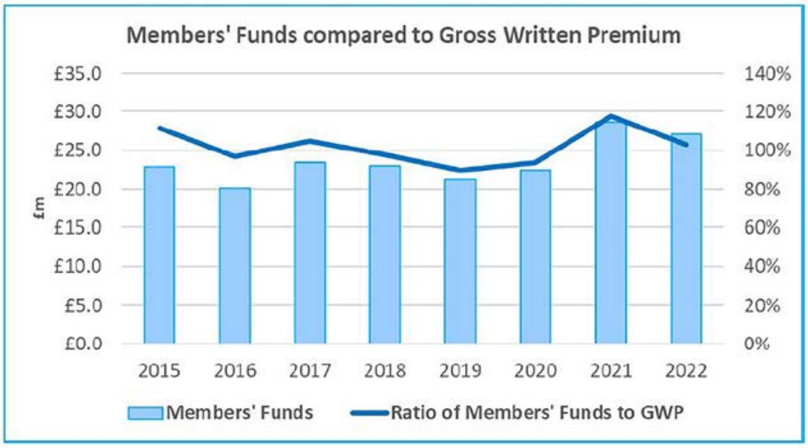
Financial Performance

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

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

Members' Funds fell this year by £1.7m to £27.0m (2021: increase of £6.2m). While we have made a marginal profit on our insurance operations, the loss is due to our investment performance. The result can be summarised as follows:

- at a gross level, our underlying performance is consistent with forecast, but there have been some material movements on our largest claims;
- Storm Eunice has impacted our insurance profit, albeit within expected levels of volatility;
- our investments have been materially impacted by volatility within the wider market.



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

Financial Highlights

The table below includes our financial key performance indicators and shows the difference between the gross and net insurance performance, which allows us to see the impact of our reinsurance arrangements. The table reflects the financial results as reported in each financial year. Each year is subject to positive or adverse developments in claims from previous years. This means that in Financial Year 2022, net insurance profit reflects the impact of changes in claims values under quota share arrangements, stop loss arrangements and excess of loss arrangements.

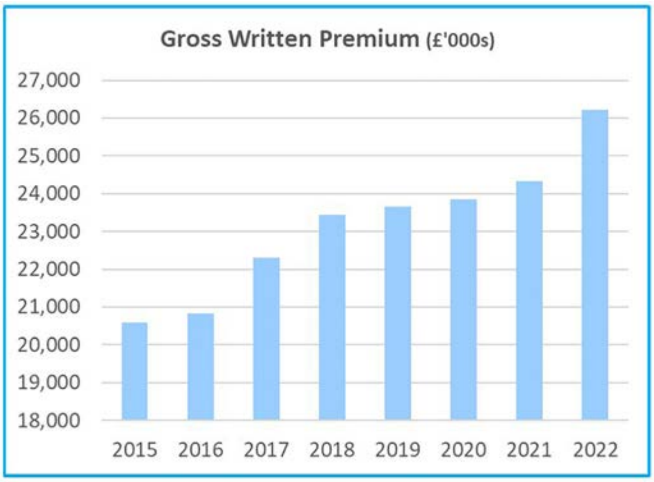
Year	2015	2016	2017	2018	2019	2020	2021	2022
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Gross Written Premium	**20,590**	**20,820**	**22,310**	**23,440**	**23,650**	**23,860**	**24,330**	**26,210**
Gross Earned Premium	**20,710**	**20,600**	**21,500**	**23,000**	**23,450**	**23,880**	**24,140**	**25,190**
Less: Gross Claims	(9,460)	(10,870)	(12,070)	(13,830)	(15,360)	(18,340)	(11,060)	(16,550)
Gross Loss Ratio	46%	53%	56%	60%	66%	77%	46%	66%
	11,250	9,730	9,430	9,170	8,090	5,540	13,080	8,640
Add: Other Income	260	290	250	280	280	290	290	70
Less: Expenses	(5,630)	(5,960)	(6,430)	(6,830)	(6,980)	(6,870)	(6,940)	(7,420)
Gross Earned Expense Ratio	27.2%	28.9%	29.9%	29.7%	29.8%	28.8%	28.7%	29.5%
Gross Insurance Profit/(Loss)	**5,880**	**4,060**	**3,250**	**2,620**	**1,390**	**(1,040)**	**6,430**	**1,290**
Effect of Reinsurance	**(5,470)**	**(4,320)**	**(2,880)**	**(3,220)**	**(3,340)**	**2,370**	**(2,380)**	**(1,230)**
Effect of Reinsurance as % of GEP	**-26%**	**-21%**	**-13%**	**-14%**	**-14%**	**10%**	**-10%**	**-5%**
Net Insurance Profit/(Loss)	**410**	**(260)**	**370**	**(600)**	**(1,950)**	**1,330**	**4,050**	**60**
Add: Investment Returns/(Losses)	**350**	**1,820**	**1,900**	**270**	**590**	**(130)**	**2,090**	**(1580)**
Profit/(Loss) Before Tax	760	1,560	2,270	(330)	(1,360)	1,200	6,140	(1520)

Rounded to nearest £10,000 . Insurance profit refers to balance before investment return and tax.

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

Gross Written Premium

Gross Written Premium increased over the period to £26,205k (2021: £24,331k). This excellent level of growth is above forecast for Financial Year 2022, and represents a clear increase following the impact of the pandemic on new business levels. While some of this increase is driven by increases in sums insured, new business has also contributed to this result, as has an improvement in retention on existing business.



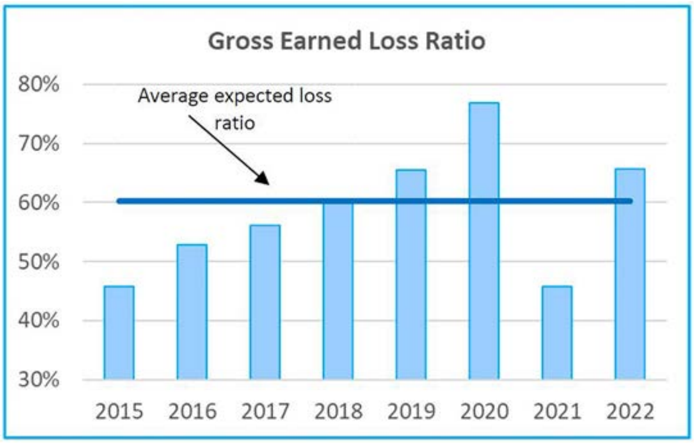
As described above, profitable, sustainable growth is one of three key objectives as we enter our new strategic period and given the wider challenges brought about through the economy, inflation and climate change, it is pleasing to see this growth.

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 a period of exceptional bad weather. The increasing trend from 2015 to 2020, shown in the graph, has arisen due to the increase in value of a very small number of large claims during these years. This increase reflects the volatility we face as a business and not a deterioration of the overall portfolio and for that reason is in line with our expectations.

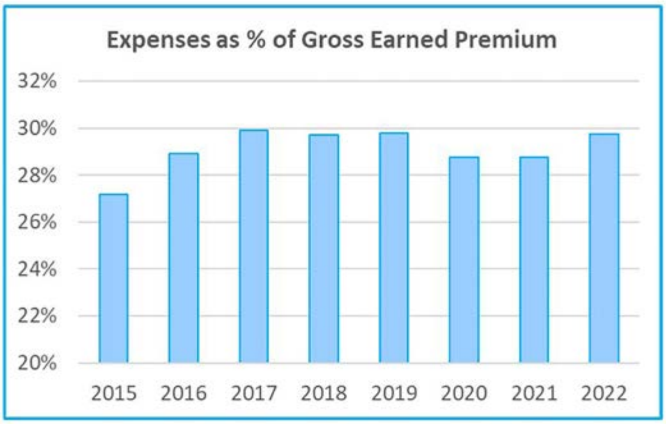


Without this, the loss ratio for 2020 would be well below target, reflecting more clearly the reduction in small motor claims during the lockdown of March and April 2020. This trend continues in 2021, with a lower loss ratio resulting from the low claims volumes brought about by multiple lockdowns, and no material increases to claims values in prior years. Our result for Financial Year 2022 is a combination of the impact of Storm Eunice and movement in larger claims – without the latter our loss ratio would be in line with our average expected loss ratio.

Expenses

Expenses include net operating expenses from the technical account (those directly related to insurance) and other charges from the non-technical account. Our target is to keep expenses below 30% of gross earned premium. In the current year, the ratio of expenses to gross earned premium has increased to 29.7% from 28.8% last year. This is because our expense ratio is being measured against earned premium rather than gross written premium, which takes longer to be recognised and therefore does not yet reflect the growth that we have seen during the year. If we were to look at expenses as a percentage of gross written premium, it would be much closer to last year's expense ratio.

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



The Use and Effect of Reinsurance

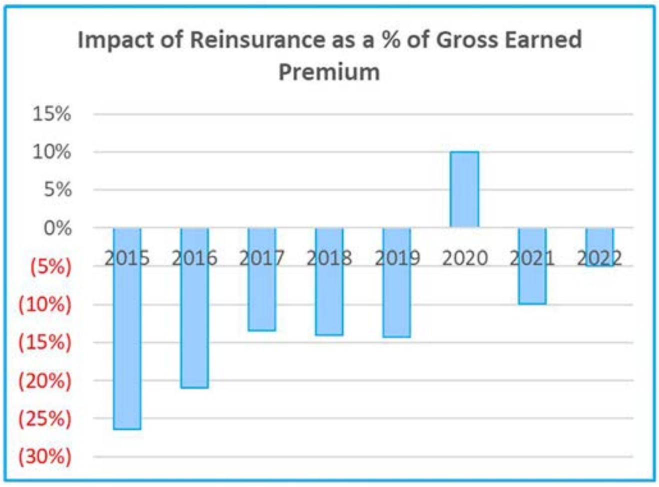
Cornish Mutual, in common with other insurance companies, is exposed to potentially large, though infrequent, losses. Motor insurance in the UK is provided on the basis of unlimited liability, which means one individual claim could be much larger than Members' Funds.

To protect Members' Funds against the possibility of a very large claim or a large number of claims arising from a natural catastrophe, we enter into reinsurance arrangements which reduce the financial impact of such claims should they occur. Cornish Mutual's result for Financial Year 2022 reflects the use of three main types of reinsurance; stop loss, excess of loss and quota share.

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

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

The graph illustrates the cost of reinsurance as a percentage of gross earned premium. For the purposes of clarification, the positive impact of reinsurance in Financial Year 2020 is not due to the transition to the stop loss reinsurance arrangement, but rather due to a large recovery which reduced the provision for a large claim from an earlier year. A similar effect is evident for Financial Year 2022, when a large recovery against a claim from an earlier year has the effect of reducing our reinsurance cost to around 5%. In Financial Year 2021, similar large movements did not occur, so our effective reinsurance cost was around 10%.



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

Reinsurance protects Cornish Mutual against losses that would otherwise threaten our capital base, as described in the risk management section of this report. Our previous quota share reinsurance programmes had been in place to protect against loss to the business, but this has been at the cost of sharing our underwriting success with reinsurance partners by a reduction in our profit.

Our current structure retains more risk against certain events which are expected to be infrequent and not occur every year. By retaining more of the risk, we retain more of the profit in intervening years, while continuing to receive sufficient capital protection against large individual losses. In Financial Year 2021, under the stop loss we were able to retain more profits thanks to our low loss ratio than was the case in 2015 when we experienced a similar loss ratio but had to cede significantly more profits to quota share reinsurers. The stop loss also benefits Cornish Mutual with protection against a significant cluster of small losses which could impact our results.

Investment Returns

Investment performance in 2022 has been poor due to significant volatility in the market. While we had anticipated a low-return environment, market volatility over the last year has been unprecedented. The use of multi asset Funds gives our selected expert providers more ability to manage these challenges on our behalf. However, despite avoiding the worst of the poor performance in the markets, we have still experienced an unwinding in much of the growth achieved in Financial Year 2021.

While the investment results for this year are disappointing, they are within expected volatility for our five-year forecasting period.

Investment losses during the last year, plus a small insurance loss, has meant that Members' Funds have reduced from £28.7m to £27.0m.

Cash Flow

The levels of capital prescribed by the Prudential Regulation Authority (PRA), held in Cornish Mutual as retained profit, results in significant investment assets on the balance sheet. Given the liquidity of these assets, cash flow does not present a significant risk and we maintain considerable flexibility. The total amount and timing of claims payments is one of the main factors determining cash flow. This financial year has seen limited unwinding of our previous quota share reinsurance arrangement compared to previous years. Reinvestment has been overseen closely by the Investment and Capital Management Committee, more information is provided in the Committee report on page 49.

Overall Financial Performance

Premium growth in 2022 was strong, with our new business activities largely uncurtailed by the Covid-19 pandemic as well as increases in Sums Insured. Given that Sustainable Growth remains a key objective of the Company and underpins future performance, this result is very pleasing.

Overall we achieved a small insurance profit (defined as our result before investment returns) - certainly when compared to last year's profit of £4m. However, given that our result for Financial Year 2022 also includes the impact of Storm Eunice, which is considered to be approximately a once in a decade event, this is still a positive result and in line with forecast expectations. Investment returns have suffered due to wider market volatility, with many of the returns we achieved last year having been unwound. Nonetheless, while disappointing, our Investment Managers did manage to avoid the worst of the poor performance and the results remain in line with the volatility we expect.

The balance sheet remains well-managed, and Members' Funds exceed regulatory capital requirements which is in line with our risk appetite.

We have structured our investments and reinsurance arrangements to reflect the appropriate levels of risk relative to the outcomes we wish to achieve. These issues are discussed in more detail in the Principal Risks and Uncertainties section of this Strategic Report and in note 5 to the Financial Statements on page 79.

Key Non-Financial Performance Indicators

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

	Male	Female
Directors	6	2
Leadership Team	11	9
All other Staff	25	53
Total	42	64

We have a policy of being as flexible as we can with working arrangements, both to ensure we fulfil Member expectations and to help us maximise opportunities for our staff. Over a third of our staff work non-typical hours, which enables them to balance work with other commitments and maintain their career aspirations. The pandemic has accelerated a move to home working, and over the past year we have put in place a hybrid working model, which we will continue to review to achieve the best outcome for our Members and employees over the longer term.

Staff Engagement

We have just undertaken our third staff survey, which saw an 77% response rate (2021 66%). On a scale of 1 to 10, an average rating of 8 out of 10 was given to the question of how likely people were to recommend Cornish Mutual as a good place to work (2021: 8 out of 10). It is pleasing to see an increase in response rate, which suggests increased engagement, and the maintenance of a high score in response to this question. Once again, we will analyse the key themes which emerge and report back to the business accordingly.

Net Promoter Score

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

In 2022 we achieved an NPS of 74% from the claims cohort (2021: 59%), 81% from the new policy cohort (2021: 76%) and 55% from the general cohort (2021: 52%). We believe these scores to be market leading and we are delighted to see the improvement in each of them as we continue to work hard to enhance Member service, which remains a core objective of our strategy.

We continue to focus on activities which will deliver a quality service and exceed Member expectations, while at the same time delivering against our objectives. We continuously monitor our telephone answering to ensure compliance with our Service Level Agreements. Over the course of 2022, we answered 93% of all our calls within 20 seconds (2021: 89%), with any calls falling outside of this statistic receiving a prompt call back. With a keen focus on ensuring we identify and respond to any issues flagged by our Members, benchmarking against other insurers has indicated we are ahead of the rest of the market in terms of the proportion of complaints we receive relative to our volume of policies.

Corporate Social Responsibility

Corporate Social Responsibility (CSR) has always been important to Cornish Mutual. We want to use our skills and resources to make a positive difference to farming and rural communities. With show season back in full swing we have supported over 20 agricultural shows and events through sponsorships, class sponsorships and attendance, as well as supporting the Cornwall, Dorset and Somerset Young Farmers' Clubs with finances, training, and resources. We have launched 'Cornish Mutual Farm Walks' which are community led events that allow farmers of all ages to meet and learn more about various farming practices.

We continue to grow The Cornish Mutual Young Farmers Bursaries supporting local agricultural colleges by providing a total of £2,000 in bursary awards. Through donations received during our attendance at three agricultural county shows, our Members have raised a total of £3,000 for local charities: Cornwall Air Ambulance, Farms for City Children and Future Roots. Internally we have increased awareness and raised funds through hosting bake sales, quizzes, bingo and raffles for our chosen charities: Ukraine, Comic Relief, Brain tumour Research, Breast Cancer Awareness, The Wave Project, Farms For City Children, Air Ambulance and Future Roots. We donated office furniture to charities including Volunteer Cornwall and British Heart Foundation.

Everyone is given one paid day for volunteering. This year we have volunteered our time at local foodbanks, The Kingfisher Award Scheme across the South West, local Farm and Country days and Farmerados charity events. We have delivered training in the local community, including Health & Safety workshops for farmers, the agricultural community, and groups of Young Farmers. We continue to be actively involved in the government's Healthy Workplace Scheme and look to uphold our Gold Standard award. We continue to support the local Roc 5k race through sponsorship and by providing support on the day.

Future Development

Having begun the year still in the midst of the Covid-19 pandemic, there have been multiple challenges during Financial Year 2022, whether that be turbulent financial markets or ongoing high inflation. More specifically within farming, inflation has become an increasingly significant issue during the year. We know that change is afoot, raising fundamental questions relating to food production, global competitiveness, self-sufficiency, food tariffs and trade and considerations around climate change.

Climate change issues are important to us both from the point of view of our Members and how it impacts their lives and businesses, but also in relation to the financial risks of climate change we may encounter as a business. We are watching developments closely, ensuring that as the needs of farmers change, our products and services evolve too. We are keen to use technological advancements to enhance our processes and give our Members the best possible service, while respecting the Members' right to choose how they wish to engage with us.

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

Principal Financial Risks and Uncertainties

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

Insurance Risk

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

An essential part of managing our insurance risk is our reinsurance approach. In Financial Year 2022, we completed our third year under our stop loss reinsurance, which has allowed us to generate a better return for our Members within acceptable levels of volatility.

Counterparty Credit Risk

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

The change in reinsurance from a quota share to a stop loss arrangement has meant that the amount recoverable from reinsurers has decreased, which mitigates the credit risk the business faces. While we have seen a reduction in counterparty credit risk in relation to our quota share reinsurer, counterparty credit risk remains relevant to our revised reinsurance structure. This is primarily due to reinsurer's share of technical provisions arising from our excess of loss reinsurance. If a stop loss recovery did arise, counterparty credit risk would also remain.

We monitor the credit ratings of our reinsurers and review their financial strength annually prior to renewal. We have now completed renewal for Financial Year 2022, with all our reinsurers deemed acceptable from a credit risk perspective.

Liquidity Risk

Liquidity risk is the possibility the business may be unable to meet its obligations as they fall due as a result of having insufficient accessible Funds. We pursue an investment policy that means we have sufficient liquid assets to ensure liquidity.

Market Risk

For Cornish Mutual, market risk includes an adverse movement in the value of assets, such as interest rates or equity prices, and is not matched by a corresponding movement in the value of liabilities. Our investment policy ensures we have a suitably diverse balance of assets. Testing the impact of particular events on these assets, such as failure of investments and equity downturns, is a critical part of our Solvency II work, in particular the calculation of the Solvency Capital Requirement (SCR). After insurance risk, market risk is the most significant risk the Company faces. We have been monitoring our investments closely over the year, recognising the volatility within the wider markets and liaising frequently with our investment manager throughout the period. More information can be found on this in the Investment and Capital Management report on page 49.

Operational Risk

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

Covid-19 and its many impacts was indicative of the potential for operational risk. Particular focus is placed on such risks by the Board, with a variety of mechanisms in place to both mitigate their effect should they arise and to prevent them arising in the first place.

Pension Risk

Between the end of the Financial Year 2021 and signing our Annual Report for 2021, the Pension Trustees entered into a buy-in transaction with Legal and General to match the liabilities of the defined benefit Cornish Mutual Pension Scheme. This has protected the Company from the turmoil experienced by Pension Funds during September 2022.

Risk associated with the pension is now limited to counter party credit risk, and while we are still required to reflect a nil position in our Financial Statements, we do not anticipate the defined benefit Pension Scheme will impact our results.

The intention is for the Scheme to ultimately move to buy-out during the next financial period. This transaction will be reflected in next year's Financial Statements.

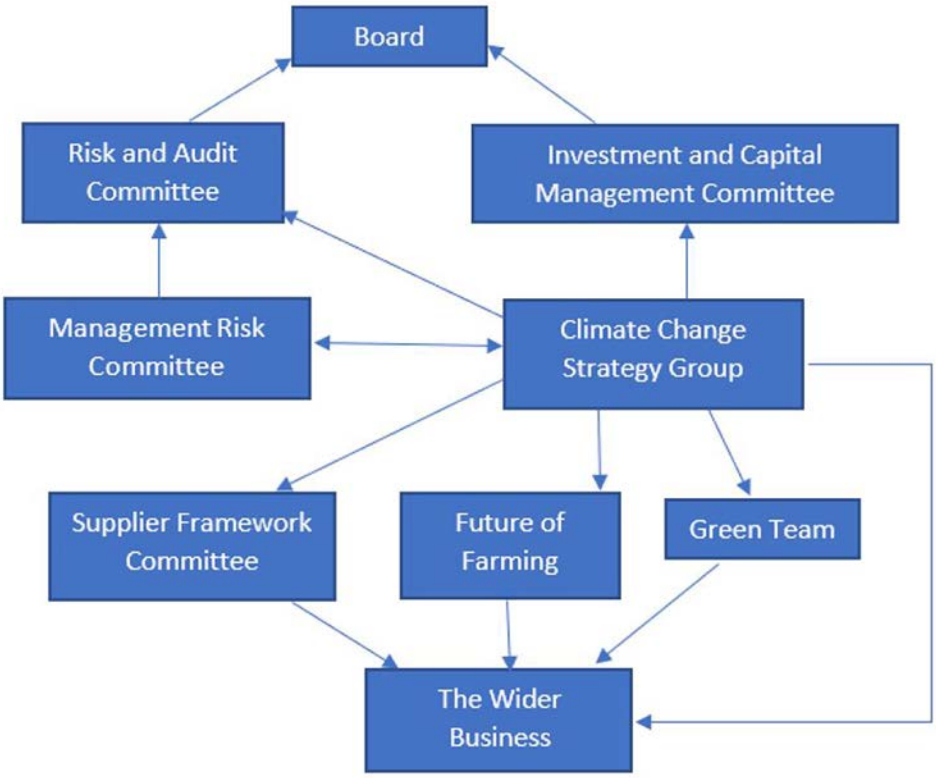
Climate Change

Internally, and consistent with the regulator's wishes, a significant amount of focus has been on understanding the financial risks of climate change and implementing the recommendations set out by the Taskforce on Climate-related Financial Disclosures (TCFD). The TCFD is a financial industry led body with the specific purpose of creating recommendations for companies on the information stakeholders should be provided with on climate risk. The TCFD has published its recommendations, which are categorised as Governance, Strategy, Risk Management and Metrics and Targets. For each of these sections, we provide an update below.

Governance

The Board recognises the risks brought by Climate Change and strives to embed our response throughout the business, considering the impact in all relevant Board policies. The Board also endeavours to consider all opportunities which arise through Climate Change, whether for the business or the Membership, and seeks to engage with the relevant third parties accordingly. To drive progression in considering Climate Change at Board level objectives have been allocated to the Executive Team. Specifically, the Insurance Director, as the Senior Management Function holder responsible for Climate Change, has been assigned an objective to develop and implement a company carbon footprint reduction/elimination plan that dovetails with our management of the financial risks from Climate Change. In addition, the Board has also required the Executive Team to proactively seek to develop a deep appreciation of the current issues challenges and opportunities facing Farming, which includes Climate Change.

A Climate Change Strategy Group led by our Insurance Director (also our Chief Risk Officer and Senior Management Function holder), provides an update on progression against our Climate Change plan to each Board meeting. He also chairs the Management Risk and Supplier Framework committees which provide visibility of how Climate Change is being handled both internally and externally. The Board also receives further updates from the Risk and Audit Committee (RAC) and the Investment and Capital Management Committee (ICMC) on any Climate Change developments.



Consultation with employees identified a desire to be kept regularly informed on Climate Change related developments within Cornish Mutual, the wider insurance industry and agricultural sector.

In September 2022, we had a company-wide Climate Change day, discussing the subject in detail with input from external contributors. The Future of Farming workgroup continues to provide a link directly to the agricultural sector. To support our people with their own actions we have set up a Green Team to distribute information internally on proactive ways to manage climate risk both in the workplace and at home. This may be through schemes such as salary sacrifice on the purchase of electric vehicles, access to a broader suite of sustainable funds through our new pension provider or ways to reduce their own carbon footprints. The Green Team also provides feedback, enquiries and suggestions from staff to the Climate Change Strategy Group.

Strategy

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

At Cornish Mutual, we want to support farm businesses as they work to deal with both the physical aspects of Climate Change, such as more frequent storms and droughts, and risks as we transition to a lower-carbon economy. We know from the farm risk survey, which we undertook last year, that many farmers are considering their response to Climate Change, whether through their production processes, or their approach to soil, and we wish to support them with this. We are therefore engaging with both external providers and the Membership to understand the insurance products and broader resilience services which are required and available.

Cornish Mutual has engaged with industry consultants and together developed a model which identifies key Climate Change drivers which have the potential to present a level of financial risk to the business. Scenario analysis has been undertaken to assess the potential financial impacts on the business depending on the transition pathway. We have modelled scenarios over 3 transition pathways:

- Orderly transition - gradual reduction in GHG emissions - Global mean temperatures increase by 1.6 to 1.7°C by 2050
- Disorderly transition - global emissions do not decrease until 2030 - Global mean temperatures increase by 1.8°C by 2050 but the transition is more dramatic
- Hot House scenario - CO_2 emissions do not decrease enough to prevent significant temperature rises and high physical risk - Global mean temperatures increase by more than 2°C by 2050.

We will continue to develop our Scenario Analysis to help drive our business strategy and financial planning.

As part of our review of the financial risks arising from Climate Change, we have reviewed our investment portfolios to ensure we do not hold carbon heavy assets. We have engaged with our Investment Manager to understand the risk presented within our current holdings and to understand the way Climate Change considerations are evaluated in line with regulatory expectations.
Please refer to page 49 (Report of the Investment and Capital Management Committee) for more information.

Risk Management

In line with emerging best practice, the risk from Climate Change is considered as impacting throughout the business and is integrated into our risk framework in this way. Risks within Cornish Mutual are grouped into various categories, which are then reviewed against key considerations to understand which areas present the most risk to the business in terms of the financial impact from Climate Change. This year we have also added Climate Change as a standalone strategic risk, which means we consider its impact outside of our standard time horizon of five years. We continue to update our framework and are developing key Climate Change risk indicators.

All risk categories within the business have been reviewed by the Management Risk Committee to establish whether they have the propensity to be impacted by Climate Change. Nineteen specific risk areas have been identified and an exercise took place with the risk owners to consider the potential short (5-year) and long term (30-year) effects. We will continue to monitor these risks within the current framework, engaging with external specialists as and when required, enabling us to make decisions on the level of risk which the business is willing to accept. As a specialist insurer, we will continue to take a proportionate response that fully recognises our core farming Membership will be significantly impacted by the changing climate.

Metrics and Targets

Our ambition is to become a Net Zero Company by 2023 for our directly controlled emissions. We have an overall ambition to be Net Zero across all scopes by 2050. Net Zero means that we have measured our carbon footprint, we are putting steps in to reduce our footprint and in the interim period we will commit to offsetting any remaining emissions. We have worked with an external company to scientifically calculate our own carbon footprint to measure how many greenhouse gases we are emitting as a business.

We have used the industry standard Green House Gas Protocol approach focussing on the directly controlled emissions of our business within Scopes 1 & 2 but also included emissions that we are able to calculate within scope 3 such as water supply, business travel and staff commuting.

We are using 2019 as our baseline year as we recognise that 2020 was affected by reduced business travel and attendance by staff within the offices whilst we worked through Covid restrictions.

	Scope 1	Scope 2	Scope 3	Total	Emissions to offset
2019	106.1	69.4	86.4	261.9	192.5
2021	132.9	63.7	65.8	262.4	198.7

From 2022 onwards our focus will be to reduce as much of our emissions as we can plus engaging with a local offsetting project to offset any remaining emissions as discussed above, thus becoming Net Zero for our directly controlled emissions from 2023. We will be working with Plant One Cornwall to achieve this.

Our focus will now move to how we engage with our Members and suppliers to understand their journeys to Net Zero and how these will be included in our own Scope 3 targets. We have already started to see encouraging moves in this space from our supply chain. We are engaged with Richfords, a flood and fire restoration specialist who have developed a remote moisture monitoring system. This removes the need for engineers physically checking in on equipment resulting in a reduction in mileage and travel emissions as well as shortening the time a claim takes to progress for a Member. We will continue to identify and share emerging industry best practice.

Our focus will now move to how we engage with our Members and suppliers to understand their journeys to Net Zero and how these will be included in our own Scope 3 targets.

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

Going Concern and Future Planning

Our forecasts and projections, taking account of reasonably possible changes in trading performance, including the impact of current high levels of inflation, show 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 the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its Financial Statements.

The Own Risk Solvency Assessment (ORSA) process identifies the assumptions which we have made in assessing how the business will develop and results in an annual report available to our Regulators. A full explanation of the ORSA is included in the Report of the Risk and Audit Committee on page 42.

We produce a five-year plan with a forecast balance sheet for each year. We adopt a five-year period as we consider it possible to anticipate likely reinsurance arrangements and cash flows for this length of time. We have modelled one forecast assuming our existing stop loss and excess of loss cover is in place, and another where just excess of loss cover is maintained. These reinsurance types are explained on page 16. We reviewed our five-year plan in light of the impact of inflation and were comfortable the assumptions made, and the forecast numbers, remained reasonable.

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

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

On behalf of the Board

Peter Beaumont

Managing Director

13 December 2022

DIRECTORS

Directors' Report

The Directors have pleasure in submitting the Annual Report and audited Financial Statements for the Company for the year ended 30 September 2022.

The following served on the Board of Directors during the year ended 30 September 2022:

JP Oatey Chair of Board
PJ Davies BSc, C Dir, FPMI, FIDM, FIOD
PS Beaumont Managing Director BSc, FCA, Cert CII
RB Cawse MA (EXON), DMS, FCIB, FRSA - Retired 31 March 2022
CW Pears BA (Hons), ACII
R Lane TD, BA FCMI, FCII
SE Turner OBE, MSc, LLB (Hons)
PWD Mahon Insurance Director BSoc Sc, FCII
CE Green Finance Director BA (Hons), FCA
MP Schwarz Company Secretary BS, MSc

Directors' and Officers' Insurance

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

Financial Risk Management Objectives

The Strategic report includes an assessment of financial risk management objectives, which can be found on pages 12 to 18 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.

Future Developments

Future developments have been disclosed in the Strategic Report on page 20.

Directors

All Board Members have served fewer than nine years. Mr. Lane, Mr. Pears and Mrs Turner were re-elected to the Board at the Annual General Meeting held 31 March 2022. Mr Cawse retired from the Board at that same meeting.

Going concern and future developments

Detail as to the Directors assessment of Going Concern and future developments is included on page 26 as part of the Strategic Report.

Director's Confirmations

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

Auditors

BDO have conducted the audit for the Financial Year ended 30 September 2022. BDO were appointed by the Membership at the Annual General Meeting in 2021. This is the second financial audit they have conducted for Cornish Mutual.

M. Schwarz

Margaret Schwarz
Company Secretary
13 December 2022

Statement of Directors' Responsibilities in Respect of the Financial Statements

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

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

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006.

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

On behalf of the Board

Jeremy Oatey

Jeremy Oatey
Chairman

13 December 2022

The AFM Corporate Governance Code

The Company uses the 2019 edition of the AFM's Corporate Governance Code1 as a benchmark to demonstrate good governance. The following section sets out the Code, how Cornish Mutual applies its provisions in governance, and where in this Annual Report or elsewhere, compliance with the provisions is evidenced.

THE PRINCIPLES	HOW WE APPLY THEM
1.PURPOSE AND LEADERSHIP An effective Board promotes the purpose of an organisation, and ensures that its values, strategy and culture align with that purpose.	Our enduring purpose is to protect the farming communities of Cornwall, Devon, Dorset and Somerset. This is described in more detail in the Strategic Report on page 8. This purpose drives our strategy and is the heart of the values and culture of the organisation. As a mutual, our Members and the protection of their interests is central to all our decisions. The Board is responsible for ensuring strategy aligns with purpose; it leads by example the values of the organisation. Our values (also called behaviours) are: • Putting Members at the heart of everything we do • Developing self and others • Actively working together: one team where no individual is stronger than all of us. These support our strategy to deliver our purpose. Each Board Director is appraised annually on the Company and Board specific behaviours.
2. BOARD COMPOSITION Effective Board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a Board should be guided by the scale and complexity of the organisation.	The Cornish Mutual Board is mindful of the need to ensure the right balance of skills, experience, and background in recruiting directors. We recognise that more diversity in gender, ethnic backgrounds and experience would benefit the Company and consider this a priority in our recruitment. To emphasise our commitment to diversity the Board approved a separate Policy on Board Diversity in 2022. However, competence relevant to the needs of our business remains most important in our recruitment. In order to further diversity as well as maintain expertise, we developed a skills matrix to help us choose future directors. We need a Board that is large enough to meet the requirements of governance and strategic oversight, but small enough to be both cost effective and nimble at making decisions. The Nomination and Remuneration Committee annually considers the size of our Board and considers the current mix of three Executive and six Non-Executive Directors (NEDs) right for Cornish Mutual. As mentioned above, each Director has an annual appraisal to ensure continued effectiveness and, for NEDs, independence. All our Directors have served under nine years. The Board conducts an annual effectiveness self-assessment and at each meeting considers what went well and what could be improved. Periodically we ask external parties to evaluate our Board performance. In 2021 we commissioned PKF Littlejohn to conduct an audit of our Company governance, risk management and compliance which found us to be controlled with procedures and controls in place and effectively applied. This exercise is repeated every three years.

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

THE PRINCIPLES	HOW WE APPLY THEM
3. DIRECTOR RESPONSIBILITIES The Board and individual directors should have a clear understanding of their accountability and responsibilities. The Board's policies and procedures should support effective decision making and independent challenge.	The Company's Board Charter, Memorandum and Articles of Association, Scheme of Delegation and responsibility maps clearly spell out for Board Members what their responsibilities are towards Cornish Mutual. Those Board Members who hold Senior Management Functions (SMF) under the FCA/PRA Senior Management & Certification Regime also have an individual Statement of Responsibility (SoR) which is submitted to the regulator at the time of their appointment as a SMF holder and updated as required to reflect any changes in responsibility. Cornish Mutual has three Board sub-committees to assist the Board in undertaking detailed deliberations. These committees are the Investment and Capital Management, (see page 49), Remuneration and Nomination (see page 53) and Risk and Audit (see page 42). Each committee has a comprehensive terms of reference. Directors declare their interests at least annually and any potential conflicts of interests are openly documented and managed. The Board receives training on important topics and regularly reviews the Board level policies that guide the Company's operations. The Board receives comprehensive management information to assist its decision-making. This information is continually reviewed and refined to make sure it is fit for purpose and adapts to changes in the Company's operations.
4. OPPORTUNITY AND RISK A Board should promote the long-term sustainable success of the organisation by identifying opportunities to create and preserve value and establishing oversight for the identification and mitigation of risks.	The Company's clear purpose and strategy ensure the Board puts the long-term interests of its Members front and centre. The Board is ever mindful of the dilemma of mutuality: the interests of existing Members at any point in time may differ from the needs of the business to generate a surplus sufficient to enable investment, for example in new technology or skill, and/or growth of the business. Both capital investment and sustainable growth benefit future Members but are made possible using the funds provided in large part by past and existing Members. This means we must be very clear as to the benefits to Members we expect from our strategic decisions to balance these needs over time. The Company has a comprehensive risk oversight and management structure in place as reported on page 42. The risks faced by Cornish Mutual are set out on pages 20 to 25.
5. REMUNERATION A Board should promote executive remuneration structures aligned to the long term sustainable success of an organisation, taking into account pay and conditions elsewhere in the organisation.	The Company must have credible leaders with professional expertise as well as personal values that correlate with those of Cornish Mutual so we can deliver value and service to Members. In order to attract and retain skilled and expert people, the pay we offer must be competitive within the financial services sector, commensurate with the complexity of the role and in line with our commitment to mutuality. Unusually for the financial services sector, we do not pay our executives bonuses so we remove the risk of conflicts of interests. The Report of the Remuneration and Nomination Committee on page 53 has more information on pay and related matters.

THE PRINCIPLES	HOW WE APPLY THEM
6. STAKEHOLDER RELATIONSHIPS AND ENGAGEMENT Directors should foster effective stakeholder relationships aligned to the organisation's purpose. The Board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.	We are a values-driven business and we work hard to ensure we understand the needs of our core membership. To this end we undertake significant amounts of training relating to rural and agricultural issues. In normal times, the Board actively engages with Members and prospective Members at agricultural shows approximately every week. We were pleased to have returned to engaging with Members at these events in 2022. In 2021 we initiated a series of Future Farming events to engage with our Members in a different and more focused way. We started a programme of farm walks in 2022 to allow Cornish Mutual employees and Members to experience the wide diversity of farming practices in our region, and to provide an informal opportunity for farmers to discuss current opportunities and challenges. We are a Chartered Insurer which means we uphold both technical and ethical standards established by the Chartered Insurance Institute and are assessed annually on our adherence to these standards. Our people are particularly important to us. The Board is committed to hearing the views of colleagues across the business. This includes listening to and acting on issues arising from our now annual staff survey; NED participation in Companywide Board debriefs; NED attendance at Management Risk Committee from time to time; shared workshops on topics including strategy, IT and marketing; and inviting non-Board colleagues to present papers at Board meetings. Cornish Mutual engages with a variety of third-party suppliers to deliver our desired business outcomes. Our relationship with suppliers is governed by the Board policy on Outsourcing and Supply Chain Management. We remain focused on climate change and the green agenda, especially how it is affecting UK agriculture. We have an active group looking to reduce our carbon footprint as a business. We remain actively considering the financial effects of climate change for both the Company and our Members. We strive to be a responsible member of the communities in which we operate. We have supported individuals through work placements and have further enhanced our support for Young Farmers across the areas where we do business. We continue to support agricultural charities as well as encouraging colleagues to volunteer. Please see the Corporate Social Responsibility area of our website for more information on our community engagement.

Function and Responsibility of the Board

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

Since July 2021, after Covid-19 restrictions eased, we have had all Board meetings face to face. We also continue to use online conferencing, especially for our Committee meetings, and see it as a way of reducing travel and our carbon footprint. Our Annual General Meeting was held online via Teams on 31 March 2022. We consider this a way to encourage more Members to attend the AGM and changed our Articles of Association to permit this.

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

- Strategy and management which includes approving long-term objectives and monitoring the Company's performance against these 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 includes approval of the Annual Report and Financial Statements following recommendation from the Risk and Audit Committee
- Communication and reputation which includes engagement with Members and ensuring polices are in place to deliver high quality service and products
- Remuneration which includes following the recommendation of the Remuneration and Nominations Committee in determining the salary budget for the Company as a whole and remuneration of Directors. Director remuneration is subject to Member confirmation at the Annual General Meeting (AGM)
- Delegation of authority which includes the Company-wide scheme of delegation and terms of reference for various committees.

The Board Members for this fiscal year are listed on pages 28 and 36 to 38. Cornish Mutual operates with a separate Chairman and Managing Director who maintain an effective balance of responsibilities and accountabilities. Mr Oatey as Chairman is responsible for the effectiveness of the Board. His duties, and those of all Directors, are detailed in our Board Charter which is available in short form on the Company website www.cornishmutual.co.uk or in full by request.

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

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

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

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

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

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

We actively incorporate 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 as both regulation and public opinion coalesce into action. The Report of the Risk and Audit Committee (page 42) provides more information on risks and risk management and control.

Board Members

Jeremy Oatey

Board Chair

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

Paul Davies

Senior Independent Director

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

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. He is currently a non-executive director of Coastline Housing Ltd and an independent pension trustee of Southern Housing Group. 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 started his insurance career working in the farming communities of East Yorkshire, the Lincolnshire Wolds and subsequently the Yorkshire Dales, before taking on wider roles covering the South and South West of England & Wales. He was appointed to Cornish Mutual's Board in 2018. He has previously been Managing Director at Ansvar Insurance with a specialist focus on working with charities and not for profit organisations, also having worked at LV, Zurich and RSA. Richard also served as an Army Reservist, finishing his Army career developing Leadership training and the civilian accreditation of training undertaken Army wide. He is currently Development Director for Edwards Insurance Brokers. He is both a Chartered Insurer and a Chartered Manager.

Sue Turner

Non-Executive Director

Sue Turner is dedicated to using her expertise in AI and data governance and ethics to support organisations to use AI and data with wisdom and integrity. With an MSc in Artificial Intelligence and Data Science, she established AI Governance Limited to advise businesses and policy makers on pragmatic AI, data ethics and governance issues and making a positive societal impact. She is Chair of the Faculty of Clinical Informatics and a Non-Executive Director for North Somerset Environment Company. Her career spans leadership roles in entrepreneurial private businesses and not for profit organisations where she has led significant organisational growth and collaborated to shift power to help people improve their prospects.
Her maternal grandparents were farmers in Kent and her grandfather founded the Kent & Canterbury Building Society in 1951. She was awarded the OBE in 2021 for Services to Social Justice.

Peter Beaumont

Managing Director

Peter Beaumont has a wealth of experience in the IT and financial services industries including insurance and banking. Peter took up the role of Finance Director with Cornish Mutual in January 2009 and became Managing Director in December 2019. 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. Now a strong advocate of the benefits of mutuality, Peter is focussed on understanding the challenges facing farmers. With a track record of introducing change, he is committed to developing the offering to Members, ensuring that Cornish Mutual fulfils its purpose of working to protect the farming community, while continuing to offer a first-class service to all Cornish Mutual Members.

Paul Mahon

Insurance Director and Chief Risk Officer

Paul has extensive experience in financial services having begun his career in 1992 working with Guardian Insurance. He then spent many years in the London Insurance Market and worked for 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 became our Executive Lead for our response to Climate Change in 2019. Having undertaken further study into Climate Change and exploring best practice elsewhere, Paul is focussed on ensuring we satisfy our Climate Change objectives and supporting our Membership in their transition to more sustainable businesses. 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 lives on the South Cornwall coast in Falmouth.

Clare Green

Finance Director

Clare has worked in the insurance industry for 17 years, having undertaken her chartered accountancy training in London, while working as a forensic accountant, advising insurers on the quantum of complex losses. She is a graduate of the University of Durham and a Fellow of the Institute of Chartered Accountants in England and Wales. Clare moved to Cornwall in 2011 and shortly after began working at Cornish Mutual, becoming Finance Director and being appointed to the Board in 2020. Clare is married to a Cornish farmer and, along with their two young children, they live on a grassland farm near Falmouth, which has been in her husband's family for five generations. The farm has a range of diversified interests and is focussing on reducing its carbon footprint through the use of herbal leys, reduced fossil fuel inputs and rotational grazing of its herd of suckler beef cattle. Clare is currently Vice Chair and Finance Trustee for iSight Cornwall, which is a Cornwall-based charity focused on helping blind and partially sighted people.

Board Committees

The Board operates three committees:

1. Risk and Audit Committee chaired by Richard Lane. Director members: Charles Pears and Sue Turner.

2. Investment and Capital Management Committee chaired by Charles Pears. Director members: Paul Davies and Richard Lane.

3. Remuneration and Nominations Committee chaired by Sue Turner. Director members: Paul Davies and Jeremy Oatey.

Committee membership is elected annually at the Board meeting following the Company's AGM which is held in March. Each committee operates to a schedule of matters that forms part of its terms of reference. The three terms of reference and schedules of matters are contained in the Board Charter and available on request. All meetings are formally minuted and each committee undertakes an annual self-assessment of its effectiveness. The full details of the work of each of these committees are included later in this document, starting at page 42.

Board and Committee Meeting Attendance

	Board Meetings	Risk & Audit Committee	Remuneration & Nominations Committee	Investment & Capital Management Committee
Jeremy Oatey	6/6	Attended 1	3/3	
Peter Beaumont	6/6	5/5*	3/3*	4/4*
Roger Cawse	3/3		1/1	
Paul Davies	6/6		Attended 1 2/2 as Member	4/4
Richard Lane	6/6	5/5	Attended 1	4/4
Paul Mahon	6/6	5/5*		4/4*
Charles Pears	6/6	5/5		4/4
Sue Turner	6/6	5/5	3/3	
Clare Green	6/6	5/5*		4/4*

*In attendance

Committee Member

Remuneration

The approach to remuneration at Cornish Mutual is set out in the Board Policy on Human Resources. The Directors' and Executive Pay Policy section was specifically approved by the Members as part of the Annual General Meeting in 2018.

See the Report of the Remuneration and Nomination Committee (page 53) for more information on pay and related matters.

Year ended 30 September 2022

Director	Remuneration (£)	Benefits (£)	Pension (£)	Total 2022 (£)	Total 2021 (£)
P Beaumont	187,130	323	19,200	206,653	184,736
P Mahon	142,130	323	16,045	158,498	140,713
C Green**	113,746	323	12,760	126,829	105,031
J Oatey	52,500	323	0	52,823	50,323
P Davies	26,000	774	0	26,774	25,774
C Pears	24,000	323	0	24,323	23,323
R Lane	26,000	774	0	26,774	22,857
S Turner	23,000	323	0	23,323	19,094
R Cawse*	10,500	517	0	11,017	23,691
	605,006	4,001	48,005	657,012	595,543
National Insurance				**75,781**	**65,139**
Total				732,793	660,683

* Partial year.

** Pro-rated

On behalf of the Board

Margaret Schwarz
Company Secretary

13 December 2022

REPORT OF RISK AND AUDIT COMMITTEE

Responsibilities of the Committee

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

The RAC's rolling programme covers a variety of regular items such as the framework for reporting reserves, as well as monitoring new and emerging factors and risks. Specific attention is given to topics considered particularly significant, including the issues and judgements relating to the development of large, complex claims.

Membership

The Committee is formally made up of Non-Executive Directors with recent financial experience, with the Executive also attending each meeting. All other Board Directors are able to attend meetings with the agreement of the Committee Chair. We meet without the Executive as and when the Chair considers it appropriate to do so and in particular when reviewing the annual financial statements with the external auditors. Each year we undertake a review of our performance and effectiveness. Richard Lane has been Chair of the RAC since April 2021.

Review of Activity

The Committee's core activities:

1. Own Risk and Solvency Assessment (ORSA)

The Company's ORSA process comprises a continuous forward-looking assessment of current and future potential risks to its business strategy, its solvency position and capital management. It describes how the Company is organised and governed, future business strategy, risks to achievement of that strategy and how such risks are mitigated, how capital is measured and used to support the strategy, the Company's systems of internal control and how a culture of risk awareness is embedded throughout the organisation.

Specific consideration is given to the regulatory requirements of the underlying assumptions in the Standard Model Formula for the purposes of calculating its Solvency Capital Requirement (SCR) and we continue to recommend that use of the Standard Model more than adequately represents the risk profile of the Company.

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

Actuarial Function

We are required to hold an Actuarial Function, per the demands of Article 48 of the Solvency II Directive. The function is charged to think independently about areas of Cornish Mutual that deal with uncertainty and risk and look to introduce appropriate mechanisms to quantify and address those risks.

The Actuarial Function is headed by Peter Beaumont, the Managing Director, who is the designated "Chief Actuary". Every year, we review the Actuarial Function Report, which is made up of a review of Technical Provisions, Opinion on Reinsurance Adequacy and Underwriting Policy, and Contribution to Risk Management.

Risk Management

A culture of risk awareness is firmly embedded throughout the Company. The key function of Risk Management is carried out by the Management Risk Committee (MRC) which meets six times a year and reports via the Insurance Director, who is also designated by the Board as our Chief Risk Officer (CRO).

Our Risk Register is focused around our People, Prudential, Legal & Regulatory, Member Expectations and Operational risks. During 2022 our approach was refined to bring a closer focus on both operational and strategic risks, while ways to identify new and/or emerging risks have also been implemented. All risk descriptions and controls have been reviewed including the introduction of a suite of Key Risk Indicators (KRI).

Internal Audit and Compliance

The Board's Policy on Internal Audit and Internal Control is mandated by the Board Charter. The Head of Internal Audit and Governance Leader reports directly to the Chair of the RAC. As a committee, we are satisfied 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 some technical areas, we consider the increasing complexity of the insurance market and regulation requires a higher level of assurance than can be provided internally. We contract PKF Littlejohn to provide internal audit services to the Company in accordance with an agreed Audit Universe which follows a four-year cycle.

The policy of the RAC and the Board remains to continue to seek independent assurance concerning all technical aspects of the Company's operations including input from experts in different fields and from the Company's External Auditors. The Internal Validation and Support Team (VAST) has further improved its effectiveness, including the addition of external expertise into its thematic reviews. VAST's attendance at RAC to give greater context to its recommendations was well received. No systemic problems were identified in 2021/22.

During the year ending 30 September 2022 the following internal audit reports were reviewed and management actions agreed:

- Thematic Review of Mutuality (final report dated December 2021)
- Information Technology General Controls (report dated December 2021)
- Claims Technical review (final report dated April 2022)
- Underwriting Referrals and Renewals (report dated August 2022)

The Executive report any breaches of regulation to the RAC and from there the Board. There have been six entries made on the Breaches of Board Policy and Other Reportable Events log during this year. None of these is due to systemic failures and all remedial actions have been speedy and appropriate. The low number of entries is a positive indicator our approach to risk management is effective.

3. External Audit, Annual Financial Statements and Business Continuity Planning

External Audit

BDO is now completing its second annual audit within its three-year appointment as our External Auditors agreed at the 2022 AGM. BDO will perform a review of the Technical Provisions, Own Funds and other elements which feed into capital disclosures in the Financial Statements. This year, as part of our internal audit programme, BDO will also audit our SFCR.

Annual Financial Statements

We approved the External Audit plan for the year at our meeting in September 2022 and confirmed focus on the following areas of audit emphasis:

- Management override of controls
- Revenue recognition
- Valuation of technical provisions

Throughout the year, we receive updates on key judgements in relation to reserves, whether through the minutes of the Large Loss Committee or on specific claims. We review the basis of the Company's claims reserving methodology each year and as part of this, we seek independent assurance through external audit. Valuation of technical provisions is invariably identified as a significant risk and an area of focus.

In each of the last three financial years, our external auditors (previously PwC and from September 2021 BDO) used an independent projection approach, using their own reserving model. This, along with the review and challenge of the reserves documentation and calculation, has provided assurance that the methodologies used in assessing the liabilities at 30 September 2022 are robust.

The RAC met in November 2022 to receive a detailed presentation from our external auditors BDO in respect of the audited financial statements for the year ended 30 September 2022. Non-Executive members of the Committee and the independent Chair of the Board also met in private with the external auditors and received assurance regarding the conduct of management during the audit, and the quality and completeness of the accounting records of the Company. The Committee approved the Technical Provisions after scrutiny of the methodologies used.

Business Continuity Planning (Disaster Recovery)

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

4. Material Risks and Future Risk Strategy

In the Strategic Report on page 7, we set out high-level strategic risks and uncertainties faced by the business. It is the RAC's role to monitor in detail the risks which the Board judges to be material to the Company. Specifically, these are:

- Unavailability or inadequacy of reinsurance
- Market (Investment) Risk
- Competitor behaviour
- Failure to attract and 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 ceases to remain relevant for Members over time
- 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

The Board regularly examines the status of each of these risks, which are reviewed by the MRC and quarterly by the RAC. Attendance at the MRC by Non-Executive Directors allows them to witness internal interaction and gain assurance of the effectiveness of the control environment.

A Letter of Assurance from the Chief Risk Officer (CRO) to the RAC Chair forms part of the annual control process. The RAC scrutinised and approved the annual Letter of Assurance in respect of the year ended 30 September 2022. It was found to be a complete and accurate reflection of how control processes had operated effectively to identify and address both current and emerging issues arising during the year. Set out below is a summary of some core risks identified by the CRO during the last financial year.

Inflation

Russia's invasion of the Ukraine has impacted world energy prices, impacted food production and been a root cause of inflation. Inflation is having an impact on our Members who are already seeing some of the biggest changes to agriculture in the last 50 years. Inflation cuts across many parts of our business including claims costs and the claims process, our reinsurance, our operating expenses and the premiums we must charge. Internally an Inflation Working Group has been established to identify core risks related to inflation, mapping, mitigating and quantifying them where possible. The impacts of high inflation have been given an appropriate level of focus to date, but we need to remain vigilant to the risks that high inflation pose to the business.

Climate Change

We have greatly increased our consideration of the financial risk and opportunities that arise from climate change as the year has progressed. The Climate Change Strategy Group has a wide representation from across the business enabling issues and opportunities to be addressed broadly and inclusively. Specific training has been well received by the Board and all staff, helping us to increase our knowledge of the issues, including Climate Change Day, which the whole Company attended, and included presentations by external speakers.

We started the year considering the financial risks from climate change (FRCC) to be a cross cutting risk and was integrated into our risk framework in this way. However, we have now included FRCC as a standalone strategic risk to help further embed it within our thinking. We are seeking to the lead the way in tackling climate risk within our specialist area of business recognising our core Membership will be significantly impacted by both physical and transition risks. As our response to climate change unfolds, we are looking at our own carbon footprint, with plans being developed and actions taken to both reduce and offset this.

Covid-19

The global pandemic remained central to our risk considerations in our previous financial year (October 2020 to September 2021) as we reopened our offices and worked through our approach to hybrid working and a tightening labour market. The ongoing direct impacts of the pandemic have received less attention this year although it has remained a factor including higher staff absences due to Covid-19.

Cyber

Computer penetration tests are carried out to protect Members' data. The Committee is satisfied no data held by the Company has been threatened by unlawful access during the financial year. The Company purchases cyber risk insurance to cover losses that might arise from a damaging cyber-attack on data or systems. Our focus remains on preventing such attacks by careful IT system design and control, while also training employees on cyber risk awareness and prevention.

The Future Risk Environment

Farmers are seeing large changes across agriculture and the industry is having to adapt to succeed. High inflation will be adding to the pressure for our Members as will uncertainty over Government policy. The risk to farm business viability as a sector is a key risk to the Company as a specialist insurer of mostly mixed family farms in the South West.

As we directly interact with our Members, we have plenty of opportunities to engage and understand how farmers are viewing the challenges they face and how we can best help them increase their resilience and build sustainable businesses. It is important we continue to leverage our interaction with Members; our Farm Risk Survey and the appointment of a Farming Engagement Coordinator were very positive steps in the right direction this year.

RAC Assurance Statement

We are 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 South West farming communities, while delivering continuous improvement in the high level of personal service and prompt claims settlement to all Members. The opinion of the Risk and Audit Committee is informed by the Committee's consideration of the reports from: internal audits and the Validation and Support Team; Executive management with responsibility for the development and management of the internal control framework; the External Auditors' examination of the Annual Report and Financial Statements and accompanying management letter.

Richard Lane

Chairman, Risk and Audit Committee

13 December 2022

Responsibilities of the Committee

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

Membership

The composition of the ICMC, shown on page 39, remained unchanged from the previous period and we continued to benefit from the attendance of the Executive, alongside NED Members of the Committee. Charles Pears has chaired the Committee since 2018.

Investment Objectives

We have three primary objectives for our investments:

- Support our business strategy of delivering profitable growth. This means we target a positive 'real' return (a return greater than inflation) after charges from the investments we make while minimising the risk of losses.
- Be sufficiently liquid both in the short term and long term to meet our business requirements for such things as paying claims and implementing business strategy.
- Be consistent with the Board's appetite for economic risk and the Company's capacity to take these risks as determined by our Solvency Capital Requirement (SCR).

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

- The Insight Broad Opportunities fund (IBOF), a dynamically managed fund able to invest across a broad range of asset classes including equities. This is the primary source of return and risk.
- The BNY Mellon Absolute Return Bond fund (ARB), a dynamically managed fund able to invest across a broad range of fixed income asset classes. This is the secondary source of return and risk.
- The Insight Liquidity Plus fund (ILF+), a highly diversified money market fund with a strong credit rating, which invests in slightly longer duration money market instruments. This is a low-risk fund intended to deliver a return slightly higher than cash deposits.
- The Insight Liquidity fund (ILF), a highly diversified money market fund with a strong credit rating but limited to very short duration money market instruments. This is a very low risk fund intended as a substitute for cash deposits.

Our holdings in these Funds as of 30 September 2022 is shown on page 93.

Review of Activity

The principal activity of the ICMC is appointing our investment managers and overseeing the allocation between the four Funds listed above to strike the right balance between risk, return, liquidity and the resultant capital requirements. We also regularly review the investment strategy, the selected investment manager and the investment funds used to achieve our objectives. Where we consider better value for our members can be achieved we will make changes accordingly.

Delivering Profitable Growth

The year started with a continuation of the global economy emerging from the Covid-19 pandemic where initially positive progress could be seen. This arose from a combination of vaccine efficacy enabling a return to more usual economic activity and the positive tailwind of extensive government stimulus programmes. Unfortunately, initial positive sentiment was relatively short lived as the Russian invasion of Ukraine de-stabilised the fragile economic recovery.

The stresses we highlighted last year in the global financial system (supply chain issues, increased energy prices and ongoing geo-political tensions) were all heightened by the invasion. It also became apparent that the short-term inflationary pressure identified last year was to be neither short term or easily manageable. Inflation spiked and may not yet have peaked. Some economists predict we could see annual consumer price index (CPI) reach 13-14% shortly after the end of the year.

High inflation in combination with a stuttering economic environment created an incredibly negative climate for most investment markets. Equities, corporate and government bonds all struggled in tandem. Only commodities, in particular energy and food related, sustained areas of positive performance. These two areas are creating the global inflationary pressures. Global equities were down 13% in September 2022 as measured by the S&P 500 and UK equities measured by the FTSE 100 were down 2%. The latter performed better primarily through the strong representation of oil companies and energy firms able to benefit from rising prices. Towards the end of the year there was more disturbance in the markets with the announcement of a mini-budget, which caused unprecedented volatility towards the end of September 2022.

Cornish Mutual managed to avoid the worst of this poor performance but we still saw a decline of nearly 8% in our primary investment vehicle, the IBOF fund. This unwound much of the growth enjoyed the previous year. While disappointing, the fund was successful in using tactical asset selection to avoid the worst of the market declines and found pockets of opportunity such as commodities and infrastructure to cushion the falls further. Our other holdings being fixed income Funds were better insulated from the falls in equity markets but also saw declines of nearly 1% for ARB as the wider economic malaise also affected fixed income markets.

We will continue to monitor the mix of Funds held carefully and interrogate our investment manager on the sources of both risk and return. We will remain mindful of the high likelihood that inflation is likely to be far less stable or manageable than in the preceding few decades. We will retain a bias towards protecting our Members' Funds first and foremost and being both measured and dynamic in the management of risks taken to achieve upside returns.

Review of investment managers and strategy

During the year we concluded our triennial review of the investment managers and associated investment strategy. We concluded we would maintain the current approach and managers, Insight, for the foreseeable future. We want to gradually increase our allocation to the IBOF fund given this most strongly meets our investment criteria.

While not giving rise to large changes the review was an extensive and time-consuming exercise involving deep engagement with a wide range of potential new investment providers. We considered a range of options including taking a longer-term strategic allocation to certain asset classes (a departure from our current dynamically managed tactical approach) through to using a narrower set of investment types with reduced use of capital-intensive derivatives (a change from our current approach of using the broadest possible opportunity set within overall capital limits).

During the process we established relationships with some excellent investment managers though concluded the balance of investment track record, services provided and cost still favoured our incumbent manager. The process also secured a custody and wider service offering package to improve our administration of funds held. We will maintain a watching brief on this, rather than a formalised review every three years, given the turbulence in investment markets and the rapidly evolving capabilities to achieve Environmental, Social and Governance (ESG) benefits alongside financial performance.

The investment performance during the intervening period of deep market unrest has validated our decision to seek to manage the bulk of our investments on a dynamic basis, using the tactical asset allocation capabilities of a specialist manager and across the widest set of investment options possible (subject to overall capital limits).

Review of Regulatory Capital Requirements

The ICMC has been working to strike the right balance between being prudent while not being so cautious that we cannot achieve our long-term objective of delivering positive real returns. This means balancing the capacity for investment risk against the increased insurance risk. Historically the Solvency Capital Requirement (SCR) has been our primary indicator for the level of risk the business is taking overall. Throughout the period we saw the SCR for significant periods of time at or close to our internal limits. This triggered additional review and refinement of our internal limits which are intended to identify extreme periods when further monitoring and potential changes to our investment holdings are warranted. We have grappled with the issue that the SCR calculation as defined by the regulator does not take full account of the reinsurance protection afforded by our stop-loss reinsurance arrangements. As such we have introduced further internal measures designed to allow for this and so inform whether action is warranted in terms of making changes to our investments.

Our analysis also showed the ARB fund was increasingly adversely affecting the SCR far more than was anticipated at the time of our original investment. This arose from the greatly increased use of certain instruments designed to protect the fund and so reduce risk but which the simplified SCR calculation treated as increasing the level of risk. This inefficiency in part informed our preference to achieve greater investment exposure through IBOF at the expense of ARB.

The ICMC spent significant time understanding the level of risk inherent in our portfolios and evaluating this through both the SCR but also through our own assessment of the level of economic risk being taken. This was helpful as we saw a strong divergence between the level of risk as expressed by the SCR and the level of risk as expressed by economic factors or statistical analysis of the performance of our holdings.

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

Managing the Financial Risks Arising from Climate Change

In the previous financial years, we increased the prominence of Environmental, Social and Governance (ESG) considerations as part of the management of our investments with a particular focus on climate change. This year we took the opportunity afforded by the investment manager review to look more deeply at options available in the market. We continue to see developments in this area although noted that these apply more to funds making longer-term investments than those engaged in dynamic asset allocation, which by its nature can be very short-term investments.

We confirmed our current approach meets and, in some areas, exceeds the minimum regulatory expectations. We have also secured increased reporting and visibility of ESG metrics for our funds and will continue to drive for development in this area. We will actively engage with our investment manager given the importance we place on ESG goals. Additionally, we will continue to look for opportunities for direct and longer-term investments we might wish to make outside of our main funds, ideally delivering ESG benefits directly to the communities and Members we serve within our geographic area.

Conclusion

We are confident our investments continue to strike the right balance between protecting Members' funds and achieving positive returns through taking selected investment risks. This sits within both our regulatory and economic risk appetite. We began the period with a modest exposure to risk assets reflecting the tentative improvements underway in the global economy. We end the year with a greatly reduced exposure to risk assets and significant cash holdings ready to capitalise on opportunities as and when they emerge.

This shift reflects the levels of turbulence in markets and the transition from a more benign economic cycle to one where heavily indebted governments are struggling to bring about stability. We are living in very challenging times with significant downside risk - so that the financial risk associated with losses is higher, alongside high inflation and the increasing prominence of ESG considerations. Just as for our Members, these are difficult times to navigate. We are confident our approach will prove resilient and our investment objectives will continue to be delivered through the use of a specialist investment manager empowered to manage asset allocation dynamically on our behalf across the broadest possible range of investment options.

Charles Pears

13 December 2022

Responsibilities of the Committee

The role of the Remuneration and Nominations Committee (RNC) is to ensure the Board has the skills and experience it needs to meet the challenges facing the Company, to plan for effective future Board succession and to ensure our remuneration policy supports our strategy and encourages sustained performance. We oversee four people-related risks identified in the risk register and pay careful attention to wider employee issues across the business on an ad hoc basis. We use formal, rigorous and transparent data and processes and we welcome feedback from Cornish Mutual Members.

Membership

The Committee is comprised solely of Non-Executive Directors (NEDs), elected annually by the Board following the Company's AGM. Employees attend meetings to provide operational support to the NEDs. All Board Directors may attend committee meetings with the consent of the Committee Chair but only those appointed as members may vote on Committee reserved matters. The Committee meets without Executive attendees as and when the Committee Chair considers it appropriate to do so. Neither the Board Chair nor the Managing Director has any input or vote on their own remuneration or any connected matter. Sue Turner has chaired the committee since 2019.

Long-standing RNC member and former RNC Chair, Roger Cawse, left the Committee this year when he stepped down as a NED. We are grateful to Roger for his dedication and insights shared freely over many years. We welcomed Paul Davies to the Committee to fill the vacancy. Paul brings fresh insights as a former Assessor on the Institute of Directors' Chartered Director programme, as well as being our Senior Independent Director.

Review of Activity

This year has seen turbulence in the economy. Across the UK economic uncertainty has been exacerbated by the increase in inflation and the resulting sudden rise in the cost of living, as well as a summer of strikes related to union campaigns for higher pay and improved working conditions. Historically low unemployment levels have made recruitment across all sectors difficult.

Together with managing the return to office working as Covid-19 lockdowns unwound, it has been a challenging year to deal with people-related issues. Nevertheless, we have pushed on with our work and our three meetings this year made progress in five areas:

1. Succession planning to recruit new NEDs over the next two years

After reviewing the Board's size and composition and looking to the future as existing NEDs come towards the end of their three terms of office, this year we secured Board agreement to recruit two new NEDs. Over the next two years we will source these new NEDs to ensure we continue to have the skills, experience and diversity of thought needed on the Board.

To set the key recruitment criteria we used the Board skills matrix, considered the overall business strategy and considered Members' views, not least from "The Changing Farming Landscape Survey" which Cornish Mutual undertook this year with responses from 554 farmers. This approach highlighted the need for at least one of our new NEDs to have strong farming expertise, as well as financial services and other experience and skills.

We agreed last year to take a fresh approach to using head-hunters so, together with our HR Leader Katie Harland, we examined different organisations, with varying approaches, that could fulfil our assignment. Having weighed up the options we appointed Fletcher Jones to lead the search for us. They have decades of experience in NED appointments in financial services, including mutuals, and have deep understanding of the importance of finding leaders who share organisations' values.

The search for the first new NED has begun and is due to conclude in time for the person to be elected at the 2023 AGM; the process to secure the second new NED will begin in 2023 (for election at the 2024 AGM). We are pleased our strong network of contacts, for example from our Future Farming initiative, complements the search. We encourage any reader who would like to be considered for our Board to contact our Chair Jeremy Oatey or Managing Director Peter Beaumont.

2. Ensuring we have solid succession plans in the event of disruption to our Executive leadership

Although challenging to plan for 'unknown unknowns', in order to act swiftly if one of our three Executive Directors was unable to fulfil their role for a period of time, the RNC has a duty to ensure a workable plan is in place and that the Board is aware of its content.

This year we reviewed the Disruptive Succession Plan, considering how to keep a sensible separation of duties and maintain good governance. We have strength not only in our Executive but also in our Senior Leadership Team so, should we have to put this plan into place, we are confident Cornish Mutual would continue to function well for its Members and satisfy its regulatory duties.

3. Setting Board remuneration methodically despite the challenging inflationary environment

We have reported in previous years how difficult obtaining reliable salary benchmarking information for a Board of our size and type is, particularly for Non-Executive roles. This year we again examined external data sources, including probing data from the annual survey by the Association of Financial Mutuals, but still found a lack of real comparators for a business like ours. In the challenging inflationary environment, the backward-looking nature of survey data decreases its usefulness still further.

Our annual review of the time NEDs spend on Cornish Mutual activity has again shown an increase on the previous year. Discussing our plans for recruiting new NEDs with head-hunters provided a useful opportunity to gain insights into our current NED remuneration, which they found to be at the lower end of the market. We are confident, nevertheless, of finding the right calibre of people in our NED search without significantly increasing NED compensation.

We believe it is right to balance securing the skills the business needs with setting remuneration that reflects our mutual status. We are acutely aware of the strains on many of our Members, not least from the increases in farmers' input and energy prices and the effect on consumers of the increased cost of living.

We agreed to set Board remuneration for the year ahead in line with a banded approach to overall Company pay increases, with the lowest band applying to NED remuneration. We continue to avoid any Executive reward packages that could incentivise behaviour inconsistent with our values and not in Members' interests.

4. Proposing a new process for evaluating Board and Committee effectiveness

We have looked externally for cost effective ways to assess Board efficacy. Most are expensive with the benefits being difficult to quantify, so we did not feel using external evaluators could be justified as a good use of Members' funds. We are fortunate that our Senior Independent Director Paul Davies has relevant knowledge from his role with the Institute of Directors so, with his expertise, we were able to propose a new internal approach to examining Board and Director effectiveness. We will use the new approach in conjunction with our existing Committee effectiveness assessments, monitoring the results over time.

5. Supporting progression in 'people' issues across the business

We have taken steps this year to consider socio-economic diversity as we continue to develop our thinking about diversity, equity and inclusion. We reviewed the socio-economic backgrounds of Board members, on a voluntary basis, using the methodology of the Social Mobility Foundation. This showed we have a balance on the Board between people whose family backgrounds are classified as 'professional' and those from 'intermediate' or 'working class' backgrounds. We followed the same approach as part of the NED recruitment and will monitor over time how Board composition changes.

Analysis of our gender pay gap in the year to 31 December 2021 showed it had widened compared to the previous year. The underlying cause was that a number of long-serving team members left or retired and new recruits in the year had tended to be female and working in junior member-facing roles. Due to the size of our Company, relatively small changes can influence the pay gap, so this year-to-year volatility is not surprising. We remain confident we are rewarding males and females appropriately and want to do more to improve equality across the business. For example, knowing our lowest quartile employees are in Member Services, where jobs tend to be occupied by women, the team is considering how to make these jobs more attractive to men.

The return to office working, the tight labour market and the high inflationary environment all combine to make recruiting and retaining our people more challenging; turnover has been higher in the year than normal. We welcomed our Managing Director's proposal for a mid-year progressive pay increase to staff which gave the greatest percentage benefit to our lowest earners. We are also grateful to our Leadership team for their creative approach to defining and filling roles while retaining our culture where team working and face-to-face contact are highly valued.

Conclusion

We have made good progress this year and will continue to support our Members by ensuring Cornish Mutual has the right Board as well as the remuneration and people policies and practices we need to meet the challenges of the coming year.

Sue Turner

13 December 2022

INDEPENDENT AUDITOR'S REPORT

Opinion on the financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Cornish Mutual Assurance Company Limited ("the Company") for the year ended 30 September 2022 which comprise the statement of profit and loss, the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in members' funds and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and Financial Reporting and Financial Reporting Standard 103 Insurance Contracts (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

Following the recommendation of the Audit Committee, we were appointed by the members at the Annual General Meeting on 25 March 2021 to audit the financial statements for the year ended 30 September 2021 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 2 years, covering the years ending 30 September 2021 to 30 September 2022.

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

Conclusions relating to going concern

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

- Review and challenge of the Company's current plans and budget forecasts with reference to member renewal information, challenging growth assertions and checking that movements were in line with justifiable assumptions and movements;

- Checked the basis of solvency projections for the next 12 months, considering whether an appropriate mechanism for calculating solvency had been applied; and

- Challenge and discussion around the latest Own risk and Solvency Assessment to check the Company has sufficient capital to meet its solvency requirements.

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

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

Overviews

Key audit matters	2022 Valuation of technical provisions	2021 Valuation of technical provisions
Materiality	Financial Statements as a whole £273,600 based on 1% of Net Assets	Financial Statements as a whole £286,400 based on 1% of Net Assets

An overview of the scope of our audit

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Description of Key Audit Matter		Procedures performed to address this risk
Valuation of gross outstanding claims and reinsurers share of gross claims outstanding. Refer to the accounting policy in note 3 and claims outstanding in note 22	The financial statements include claims outstanding provisions for the estimated cost of settling claims associated with insurance contracts written by the Company. The claims outstanding provisions as at the year-end of £19.659m comprises 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 2022 as well provisions for those claims that have been incurred but not reported ('IBNR') and those that are still developing ('IBNER'). The valuation of the claims outstanding provisions is dependent on a number of assumptions including the number of claims that will ultimately be received and how much these claims will be settled for. The corresponding reinsurers share of the claims outstanding technical provisions at the year-end is £5.5m (2021: £10.9m). The valuation of the reinsurance reserves is dependent on the amount of the gross insurance reserves. Management have based their estimate of the provision at the	In assessing the valuation of the claims outstanding provisions and the reinsurers share of the claims outstanding, our procedures included the following: • We have obtained and reviewed the actuarial reports prepared by the Company with the assistance of our actuarial specialists; • With the assistance of our internal actuarial specialists, we considered the appropriateness of the methodology and assumptions underpinning the calculation of the technical provisions and the accuracy of the calculation itself, including a reprojection of 100% of the technical provisions at the year-end; • Meetings were held between management and our actuarial specialists to appropriately challenge the assumptions and methodology used to ensure that our comparison of the reprojected provisions to management's was appropriate to determine the reasonableness of the technical provisions booked; • We have reviewed and assessed changes to the assumptions used in the claims outstanding provisions compared to previous years to check these are reasonable and in line with acceptable parameters based on our actuarial specialist's assessment; • We have reconciled and agreed a sample of the source data used by management and provided to our actuarial specialists to the underlying policy data to check that calculations are based on accurate information; • We have agreed all case estimates above our performance materiality level and a sample of other case estimates to supporting documentation to check that any adjustments were accounted for in the correct period and to check the accuracy of the claims amount for the period; • We have recalculated the reinsurance recoveries, with reference to the reinsurance agreements, to assess whether the reinsurers' share of large claims have been correctly recognised; • We have reviewed the outturn of prior years' estimates against the current year's position to assess the accuracy of previous estimates and the appropriateness of the methodology; and • We have tested claim adjustments and payments after year end greater than performance

Description of Key Audit Matter		Procedures performed to address this risk
	year-end by using historical data of how claims have been settled and their experience of the industry. As a result of the significant judgements and estimates required in determining the provisions, this was considered to be a key audit matter.	materiality through agreement to supporting documentation to check that these adjustments and payments were accounted for in the correct period. Key observations: • Based on the procedures performed we consider the assumptions and methodology used by management in the determination of the valuation of gross outstanding claims and reinsurers share of gross claims to be reasonable.

Our application of materiality

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

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

	Company financial statements	
	2022 £000's	2021 £000's
Materiality	£273.6	£286.4
Basis for determining materiality	1% of Net Assets	1% of Net Assets
Performance materiality	£205.2	£214.8
Basis for determining performance materiality	75% of Materiality	75% of Materiality
Rationale for the benchmark applied	Net assets are considered to be the most appropriate measure for a mutual insurer, reflecting the ability of the Company to pay claims and indemnify its members. This represents the metric of primary interest to users of the financial statements. Performance materiality has been set at 75% of financial statement materiality, reflecting the low inherent risk associated with the aggregation of misstatements within the financial statements.	

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £13,600 (2021: £14,300). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

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

Strategic report and Directors' report	In our opinion, based on the work undertaken in the course of the audit: • the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: • adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or • the financial statements are not in agreement with the accounting records and returns; or • certain disclosures of Directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

We obtained an understanding of the legal and regulatory frameworks that the Company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Company. We considered the significant laws and regulations to be the applicable accounting standards, Prudential Regulatory Authority ('PRA'), Financial Conduct Authority ('FCA'), Company Law and the Bribery Act 2010.

We also assessed the susceptibility of the financial statement to material misstatement including fraud and identified the fraud risk areas to be the valuation of technical provisions (Refer to the Key Audit Matters section above) and management override of controls.

Our procedures in response to the above included:

- agreement of the financial statement disclosures to underlying supporting documentation;
- In response to the risk of management override of controls, assessed the appropriateness of journal entries which met specific risk criteria by agreeing them to appropriate supporting documentation;
- enquiring of management, the audit committee and Those Charged With Governance, including obtaining and reviewing supporting documentation, concerning the Company's policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;

- review of minutes of board meetings throughout the period for any instances of non-compliance with laws and regulations or known or suspected instances of fraud;
- review of correspondence with the Prudential Regulation Authority and Financial Conduct Authority; and
- review of the Company's Own Risk and Solvency Assessment (ORSA).

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

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

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Thomas Reed, Senior Statutory Auditor

For and on behalf of BDO LLP, Statutory Auditor

London, UK

13 December 2022

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

FINANCIAL STATEMENTS

STATEMENT OF PROFIT AND LOSS FOR YEAR ENDED 30 SEPTEMBER 2022	2022	2021
	£	£
TECHNICAL ACCOUNT - GENERAL BUSINESS		
Gross premiums written	26,205,466	24,330,677
Outward reinsurance premiums	(2,877,523)	(2,694,541)
Written premiums, net of reinsurance	**23,327,943**	**21,636,136**
Change in gross provision for unearned premiums	(1,010,599)	(190,921)
Change in provision for unearned premiums, reinsurers share	123,920	105,222
Change in net provision for unearned premiums	**(886,680)**	**(85,699)**
Earned premiums, net of reinsurance	**22,441,264**	**21,550,437**
Other technical income	741,019	296,656
Total technical income	**23,182,282**	**21,847,093**
Gross claims paid	19,539,237	12,054,163
Reinsurers' share of claims paid	(6,262,370)	(1,700,896)
Claims paid net of reinsurance	**13,276,868**	**10,353,267**
Change in gross provision for claims	(2,992,618)	(989,394)
Change in reinsurers' share	5,416,860	1,494,589
Change in net provision for claims	**2,424,241**	**505,195**
Claims incurred net of reinsurance	**15,701,109**	**10,858,462**
Net operating expenses	6,334,910	5,893,953
Total technical charges	**22,036,019**	**16,752,415**
BALANCE ON THE TECHNICAL ACCOUNT	**1,146,263**	**5,094,678**

STATEMENT OF PROFIT AND LOSS FOR YEAR ENDED 30 SEPTEMBER 2022	2022	2021
	£	£
NON-TECHNICAL ACCOUNT		
Balance on the general business technical account	1,146,263	5,094,678
Investment Income	(1,419,624)	2,238,174
Investment expenses and charges	(162,581)	(149,118)
Other charges	(1,089,451)	(1,043,592)
PROFIT /(LOSS) ON ORDINARY ACTIVITIES BEFORE TAX	(1,525,393)	6,140,142
Tax credit on profit on ordinary activities	0	0
PROFIT /(LOSS) FOR THE FINANCIAL YEAR AFTER TAX	(1,525,393)	6,140,142

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 SEPTEMBER 2022	2022	2021
	£	£
PROFIT FOR THE FINANCIAL YEAR AFTER TAX	(1,525,393)	6,140,142
Revaluation of property	0	0
Remeasurement of net defined benefit pension scheme	(154,000)	107,000
Deferred tax on actuarial change in the pension scheme	0	0
OTHER COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX	(154,000)	107,000
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(1,679,393)	6,247,142
ATTRIBUTABLE TO THE OWNERS OF THE COMPANY	(1,679,393)	6,247,142

The accounting policies and notes on pages 72 to 99 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2022	2022	2021
	£	£
ASSETS		
INTANGIBLE ASSETS		
Other intangible assets	57,284	84,649
	57,284	84,649
INVESTMENTS		
Land and buildings	2,200,000	2,200,000
Other financial investments	42,027,184	42,234,172
Investment in subsidiary undertaking	-	-
	44,227,184	44,434,172
REINSURERS SHARE OF TECHNICAL PROVISIONS		
Provision for unearned premium	1,519,394	1,395,474
Claims outstanding	5,531,726	10,948,585
	7,051,120	12,344,059
DEBTORS		
Debtors arising out of direct insurance operations - policyholders	6,371,758	5,666,689
Debtors arising out of reinsurance operations	3,676,476	196,750
Other debtors	21,577	10,706
	10,069,811	5,874,145
OTHER ASSETS		
Tangible assets	174,230	315,815
Stock	2,996	3,830
Cash at bank and in hand	1,036,616	2,111,412
	1,213,841	2,431,057
PREPAYMENTS AND ACCRUED INCOME		
Prepayments and accrued income	317,359	396,531
	317,359	396,531
TOTAL ASSETS	62,936,600	65,564,613

STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2022	2022	2021
	£	£
LIABILITIES		
CAPITAL AND RESERVES		
Members' funds	26,973,091	28,652,485
GROSS TECHNICAL PROVISIONS		
Provision for unearned premium	13,102,009	12,091,409
Claims outstanding	19,658,543	22,651,162
	32,760,552	34,742,571
PROVISION FOR LIABILITIES AND CHARGES		
Provision for taxation	-	-
Provision for pensions	311,000	-
	311,000	-
CREDITORS		
Arising out of reinsurance operations	549,570	745,457
Other creditor including taxation and social security	1,917,625	1,076,861
	2,467,195	1,822,318
ACCRUALS AND DEFERRED INCOME		
Accruals and deferred income	424,762	347,240
	424,762	347,240
TOTAL LIABILITIES	62,936,600	65,564,614

STATEMENT OF CHANGES IN MEMBERS' FUNDS FOR THE YEAR ENDED 30 SEPTEMBER 2022	Profit and loss £	Total £
Balance as at 1 October 2020	**22,405,342**	**22,405,342**
Profit for the financial year after tax	6,140,142	6,140,142
Other comprehensive income for the year	107,000	107,000
Total comprehensive income for the year	**6,247,142**	**6,247,142**
Balance as at 30 September 2021	**28,652,484**	**28,652,484**
Balance as at 1 October 2021	**28,652,484**	**28,652,484**
Profit for the financial year after tax	(1,525,393)	(1,525,393)
Other comprehensive loss for the year	(154,000)	(154,000)
Total comprehensive income for the year	**(1,679,393)**	**(1,679,393)**
Balance as at 30 September 2022	**26,973,091**	**26,973,091**

The accounting policies and notes on pages 72 to 79 form an integral part of these financial statements.

Approved by the Board of Directors on 13 December 2022.

Jeremy Oatey
Director

Clare Green
Director

P S Beaumont
Managing Director

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 SEPTEMBER 2022	2022 £	2021 £
NET CASH GENERATED FROM OPERATING ACTIVITIES	319,056	5,996,881
CASH FLOW FROM INVESTING ACTIVITIES		
Interest Received	-	306
Rental income	124,778	122,016
Net cash invested in financial investments	(1,500,000)	(5,300,000)
Payments to acquire tangible fixed assets	21,609	(133,588)
Payments to acquire intangible assets	6,023	(75,198)
Proceeds from sale of land	9,000	0
	(1,393,854)	(5,386,464)
NET INCREASE IN CASH AT BANK AND IN HAND	(1,074,798)	610,417
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	2,111,412	1,500,995
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	1,036,616	2,111,412

RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES	2022 £	2021 £
Transfer from Technical Account	1,146,263	5,094,678
Other Charges	(1,089,451)	(1,043,592)
OPERATING PROFIT / (LOSS)	56,812	4,051,086
(Increase) / Decrease in outstanding premiums	(705,067)	71,634
Increase / (Decrease) in debtors and accrued interest	68,301	1,181,719
Increase / (Decrease) in claims outstanding	2,424,241	505,187
Increase / (Decrease) in reinsurance creditors	(195,889)	(208,193)
Increase / (Decrease) in reinsurance debtors	(3,479,726)	768,238
(Increase) / Decrease in stock	819	2,358
Increase / (Decrease) in other creditors	918,304	(805,180)
Increase / (Decrease) in provision for unearned premium	886,680	85,699
Depreciation	163,193	188,508
Amortisation	33,389	48,592
(Gain) / Loss on disposal of fixed assets	(9,000)	233
Adjustment for fair value revaluation	-	-
Adjustment for pension funding	157,000	107,000
NET CASH GENERATED FROM/ (USED IN) OPERATING ACTIVITIES	319,056	5,996,881

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

The Company financial statements are presented in pound sterling.

2. STATEMENT OF COMPLIANCE

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

3. ACCOUNTING POLICIES

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

Basis of Preparation

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

Going Concern

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

The key matters considered by the Directors in making this assessment are disclosed on page 26.

Insurance Contracts

The Company issues contracts that transfer insurance risk.

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

a) Premiums

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

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

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

b) Unearned premiums

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

c) Acquisition costs

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

d) Claims incurred

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

e) Claims provisions and related reinsurance recoveries

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

Provisions are calculated gross of any reinsurance recoveries.

f) Reinsurance

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

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

Net Operating Expenses

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

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

Investment Income and Expenses

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

Employee Benefits

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

a) Short term benefits

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

b) Defined contribution pension plans

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

c) Defined benefit pension plan

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

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

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

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

The fair value of the plan assets is measured in accordance with the FRS 102 fair value hierarchy. This includes the use of appropriate valuation techniques.

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

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

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

Taxation

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

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

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

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

Intangible Assets

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

Software	4 years

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

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

Land and Buildings

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

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

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

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

Tangible Assets

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

Depreciation

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

Furniture and equipment	4 years

Leased Assets

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

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

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

Investments

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

Financial Instruments

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

a) Financial assets

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

1. Fair value through profit and loss

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

2. Cash and cash equivalents

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

3. Other financial assets held at amortised cost

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

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

b) Financial liabilities

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY

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

Sources of estimation uncertainty

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

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

At the balance sheet date, the Company has a gross provision in respect of claims made under insurance contracts of £19,658,543 (2021: £22,651,161).

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

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

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

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

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

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

ii) Defined benefit pension scheme

The Company has obligations to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, asset valuations and the discount rate on corporate bonds. Annually, the Company engages independent actuaries to calculate the obligation. See Note 27 for the disclosures relating to the defined benefit pension scheme. The carrying value of the net scheme liability is £nil (2021: £nil).

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

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

a) Insurance Risk

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

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

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

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

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

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

Claims provisions by Product Concentration	Gross	Reinsurance	Net
	£'000	£'000	£'000
2022			
Motor	11,478	3,648	7,831
Property	3,698	56	3,642
Liability and Commercial Packages	4,482	1,828	2,654
Total	19,659	5,532	14,127
2021			
Motor	10,256	2,566	7,690
Property	10,537	7,495	3,042
Liability and Commercial Packages	1,858	887	971
Total	22,651	10,948	11,703

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

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

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

Claims incurred and Outstanding Gross								
Reporting year	2016	2017	2018	2019	2020	2021	2022	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of ultimate claims costs:								
At end of reporting year	12,609	13,602	15,594	15,929	12,848	10,946	16,169	
One year later	11,504	12,780	15,265	15,049	12,921	10,820	-	
Two years later	11,261	12,410	21,991	15,434	13,279	-	-	
Three years later	11,436	12,527	22,031	16,397	-	-	-	
Four years later	11,218	12,448	21,715	-	-	-	-	
Five years later	11,153	12,240	-	-	-	-	-	
Six years later	11,007	-	-	-	-	-	-	
Current estimate of cumulative claims	11,007	12,240	21,715	16,397	13,279	10,820	16,169	
Cumulative payments to date	(10,829)	(11,481)	(19,716)	(12,310)	(11,114)	(8,934)	(8,387)	
Liability recognised in the balance sheet	178	759	1,999	4,087	2,167	1,964	7,875	19,029
Liability in respect of earlier years								630
Provision in balance sheet								19,659

Table includes rounding differences

Claims incurred and Outstanding Net								
Reporting year	2016	2017	2018	2019	2020	2021	2022	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of ultimate claims costs:								
At end of reporting year	7,463	7,590	8,047	8,347	10,105	10,946	16,169	
One year later	6,565	7,135	7,965	7,800	10,174	10,820	-	
Two years later	6,319	6,987	8,197	7,856	10,411	-	-	
Three years later	6,377	6,952	8,215	7,477	-	-	-	
Four years later	6,273	6,936	8,268	-	-	-	-	
Five years later	6,257	6,834	-	-	-	-	-	
Six years later	6,224	-	-	-	-	-	-	
Current estimate of cumulative claims	6,273	6,936	8,268	7,477	10,411	10,820	16,169	
Cumulative payments to date	(6,121)	(6,313)	(7,769)	(6,611)	(8,655)	(8,934)	(8,387)	
Liability recognised in the balance sheet	104	521	498	865	1,757	1,964	7,875	13,585
Liability in respect of earlier years								542
Provision in balance sheet								14,127

Table includes rounding differences

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

In particular, Cornish Mutual holds claims provisions in respect of a small number of larger claims. Larger claims, as included in the table below for financial year 2022, are those where the expected value is, or has ever been, in excess of £50,000.

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

	Large case estimate	Volatility estimate	Up gross	Down gross	Up net	Down net
	£'000		£'000	£'000	£'000	£'000
Motor	6,213	20%	1,243	(1,243)	891	(891)
Property	1,700	15%	255	(255)	255	(255)
Liability	3,497	15%	525	(525)	332	(332)
Total	**11,409**		**2,022**	**(2,022)**	**1,478**	**(1,478)**
Uncorrelated diversified			**1,373**	**(1,373)**	**984**	**(984)**

The comparison table for 2021 is as follows:

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

Of the total claims provision of £19,659k (2021: £22,651k), large claims represent £11,409k (2021: 16,308k) or 54% (2021: 72%). This excludes any allowance for large claims incurred but not reported.

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

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

The three cohorts of claims have been assessed individually and we provide a total figure. Based on current year earned premium, these sensitivities amount to 8.0% gross loss ratio (2021: 11.3%) and 6.1% (2021: 6.4%) 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 5.9% (2021: 4.8%) effect on gross loss ratios and 4.4% (2021: 4.8%) on net loss ratio.

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

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

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

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

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

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

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

b) Financial Risk

The Company is exposed to a range of financial risks. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies 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. There are significant controls in place to ensure that the risk is minimised, including an annual review of financial strength. All our reinsurers have been deemed acceptable from a credit risk perspective for this financial year.

Liquidity Risk

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

The table below analyses the undiscounted cash flows of the Company's monetary liabilities into their relevant maturity groups based on the period remaining at the year end to their contractual maturities or expected settlement dates. At 30 September all investments can be realised at any time. We have disclosed net balances for outstanding claims as, in the opinion of the directors, there is no material difference between the gross outwards payments and the recovery of the attaching reinsurance.

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK (continued)

MATURITY PROFILES

September 2022	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	14,127	5,933	4,097	1,978	2,119
Creditors	1,918	1,918	-	-	-

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

Table includes rounding differences

c) Operational Risk

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

d) Capital Management

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

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

The amount of own Funds calculated on a Solvency II basis is £31.4m as at 30 September 2022 (2021: £31.1m).

6. SEGMENTAL INFORMATION

2022	Motor	Property	Accident & Health	Liability	Total
	£	£	£	£	£
Gross premiums written	13,421,193	9,569,241	159,907	3,055,124	26,205,466
Gross premiums earned	12,958,182	9,184,206	155,118	2,897,361	25,194,867
Reinsurance premium ceded	(1,643,774)	(883,658)	(19,461)	(330,631)	(2,877,523)
Gross claims incurred	(9,262,740)	(5,526,322)	(96,190)	(1,661,368)	(16,546,619)
Reinsurance claims recoverable	1,582,999	(450,660)	-	(286,829)	845,510
Operating expenses (excluding other charges)	3,244,440	2,313,269	38,656	738,546	6,334,910

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

We do not reflect acquisition costs within the above numbers as we do not incur these.

7. EARNED PREMIUMS NET OF REINSURANCE

	Gross	Reinsurance	Net
2022	£	£	£
Premiums receivable	26,205,466	2,877,523	23,327,943
Unearned premiums carried forward	13,102,009	1,519,394	11,582,614
Unearned premiums brought forward	(12,091,410)	(1,395,475)	(10,695,935)
Increase / (Decrease)	(1,010,599)	(123,920)	(886,680)
Premiums earned	25,194,867	2,753,603	22,441,264
2021	£	£	£
Premiums receivable	24,330,677	2,694,541	21,636,136
Unearned premiums carried forward	12,091,409	1,395,475	10,695,934
Unearned premiums brought forward	(11,900,488)	(1,290,252)	(10,610,236)
Increase / (Decrease)	(190,921)	(105,223)	(85,698)
Premiums earned	24,139,756	2,589,318	21,550,437

Table includes rounding differences

8. CLAIMS INCURRED NET OF REINSURANCE

	Gross	Reinsurance	Net
2022	£	£	£
Claims paid	19,539,237	6,262,370	13,276,868
Outstanding claims carried forward	19,658,543	5,531,726	14,126,817
Outstanding claims brought forward	(22,651,161)	(10,948,585)	(11,702,576)
Increased / (Decrease)	(2,992,618)	(5,416,860)	2,424,241
Claims incurred	16,546,619	845,510	15,701,109

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

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

There was a deterioration in run off of £378k gross during the year in respect of the development of opening claims provisions of £22,651k from previous years (2021: £119k deterioration in experience on £17,040k). After reinsurers' share, run-off developed favourably by £468k (2021: £180k).

10. OTHER TECHNICAL INCOME

	2022	2021
	£	£
Instalment scheme administration charge	3,785	210,623
Commission from reinsurers	675,331	5,947
Other commission	61,902	75,506
	741,019	292,076

11. STAFF COSTS

	2022	2021
	£	£
Wages and salaries	3,538,553	3,477,759
Social security costs	395,303	375,740
Other pension costs	524,042	402,259
	4,457,898	4,255,758

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

	2022	2021
Management and Directors	9	9
Underwriting and claims	99	98
	108	107

Pension Costs

The Company contributes to three defined contribution pension schemes in respect of some employees. The schemes and their assets are held by independent managers. In the year ended 30 September 2022, the Company made contributions to the schemes of £207,042 (2021: £205,259). During the year, the Company made £160,000 of contributions to its Defined Benefit scheme (2021: £90,000).

12. DIRECTORS' REMUNERATION

	2022	2021
	£	£
Directors emoluments (including benefits in kind)	609,007	551,443
National Insurance	75,781	65,139
Other pension costs	48,005	44,100
	732,793	660,682

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

Detailed amounts paid to Directors including the amount paid to the highest paid Director are disclosed within the Report on Corporate Governance on page 40.

13. KEY MANAGEMENT COMPENSATION

	2022	2021
	£	£
Management and Directors	691,600	632,520

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

14. INVESTMENT (EXPENSE)/INCOME

	2022	2021
	£	£
Income from Land & Buildings	124,778	122,016
Income from listed investments	16,688	139
Income from other investments	4	309
	141,470	122,463
Gains/(Losses) on the realisation of investments	0	0
Less accumulated unrealised gains from prior years	0	0
Profit on disposed investments	0	0
Unrealised (loss)/gains on retained investments	(1,561,094)	2,115,711
Total investment (losses)/gains	(1,561,094)	2,115,711
Total investment (expense)/income	(1,419,624)	2,238,174

15. AUDITORS' REMUNERATION

Audit fees including VAT amounted to £130,440 (2021: £108,599). No fees were paid, in the current or prior year, in respect of any other services. The figure for 2022 includes an audit of our Solvency and Financial Condition Report of £24,000 including VAT (2021: 0).

16. INVESTMENT EXPENSES AND CHARGES

	2022	2021
	£	£
Investment management expenses	162,581	149,118

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

	2022	2021
	£	£
Directors' remuneration (see note 12)	684,788	616,582
Company Secretary's remuneration	38,280	36,977
Auditors' remuneration (see note 15)	130,440	108,599
Directors' contribution to staff pension scheme (see note 12)	48,360	44,100
Depreciation	163,193	188,508
Amortisation	33,389	48,592
(Profit) / loss on disposal of fixed assets	(9,000)	234
	1,089,450	1,043,592

18. TAXATION

(a) Analysis of charge in period

	2022	2021
	£	£
Total current taxation	0	0

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

(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:

	2022	2021
	£	£
Profit on ordinary activities before tax	(1,525,393)	6,140,142
Profit on ordinary activities multiplied by the full rate of tax in the UK, 19%	(289,825)	1,166,629
Effects of:		
Expenses not deductible in determining taxable profit	4,492,852	3,224,260
Timing differences between capital allowances and depreciation	1,081	(5,797)
Deferred tax not recognised	547,276	(259,659)
Income exempt from taxation	(4,435,524)	(4,521,225)
Tax charge arising from changes in pension funding	0	20,330
Tax increase/(decrease) on latent gains	(317,860)	360,945
Adjust closing deferred tax to average rate of 19%	0	0
Adjust opening deferred tax to average rate of 19%	0	14,517
Adjustment in respect of prior year	0	0
Total tax charge for period (see (a))	0	0

19. OTHER INTANGIBLE ASSETS

	Software Costs	Total
COST	£	£
At 1 October 2021	582,978	582,978
Additions	6,023	6,023
Disposal	0	0
At 30 September 2022	**589,001**	**589,001**
PROVISION FOR DEPRECIATION		
At 1 October 2021	498,328	498,328
Charge for the year	33,389	33,389
Disposal	0	0
At 30 September 2022	**531,717**	**531,717**
NET BOOK VALUES		
At 30 September 2022	**57,284**	**57,284**
At 30 September 2021	**84,649**	**84,649**

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

20. LAND AND BUILDINGS

	Freehold Property	Total
COST	£	£
At 1 October 2021	3,037,307	3,037,307
At 30 September 2022	**3,037,307**	**3,037,307**
PROVISION FOR DEPRECIATION	£	£
At 1 October 2021	837,307	837,307
Revaluation	0	0
At 30 September 2022	**837,307**	**837,307**
NET BOOK VALUES		
At 30 September 2021	**2,200,000**	**2,200,000**
At 30 September 2022	**2,200,000**	**2,200,000**

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

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

The Company's property was valued as at 30 September 2020 by Vickery Holman, an independent qualified firm of chartered surveyors and valuers. The valuation was calculated with reference to market-based evidence for similar properties in the local area. The Directors have considered this valuation and agree this value is still appropriate as at 30 September 2022.

21. OTHER FINANCIAL INVESTMENTS

Other Financial Investments	Current Value		Historical Cost	
	2022	2021	2022	2021
	£	£	£	£
Collective investments	42,027,184	42,234,172	40,218,000	38,718,000
	42,027,184	42,234,172	40,218,000	38,718,000

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

	2022	2022
	Level 1	Total
	£	£
Collective investments	42,027,184	42,027,184
	42,027,184	42,027,184

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

22. CLAIMS OUTSTANDING

General Business	2022	2021
Gross amount	£	£
Brought forward at 1 October	22,651,163	23,640,555
Movement in provisions	(2,992,620)	(989,393)
Carried forward at 30 September	19,658,543	22,651,162

Reinsurance amount		
Brought forward at 1 October	10,948,585	12,443,173
Movement in provisions	(5,416,860)	(1,494,589)
Carried forward at 30 September	5,531,726	10,948,585

Net provisions		
Carried forward	14,126,817	11,702,577
Brought forward	11,702,578	11,197,382

23. OTHER DEBTORS

	2022	2021
	£	£
Other debtors	21,577	10,706

24. TANGIBLE ASSETS

	Furniture and Equipment	Total
COST	£	£
At 1 October 2021	1,316,262	1,316,262
Additions	21,609	21,609
Disposals	(13,785)	(13,785)
At 30 September 2022	1,324,086	1,324,086
PROVISION FOR DEPRECIATION		
At 1 October 2021	1,000,448	1,000,448
Charge for the year	163,193	163,193
On Disposals	(13,785)	(13,785)
At 30 September 2022	1,149,856	1,149,856
NET BOOK VALUES		
At 30 September 2022	174,230	174,230
At 30 September 2021	315,815	315,815

25. PROVISION FOR DEFERRED TAXATION

	2022	2021
	£	£
Unrealised gains on investments	143,361	561,596
Fixed asset timing differences	13,368	15,778
Short term timing differences	(39,250)	0
Tax losses carried forward	(117,479)	(577,374)
Net deferred tax liability	**0**	**0**

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

Deferred tax provisions have been calculated at the rate of 25% (2021: 25%), 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

	2022	2021
	£	£
Financial assets held at fair value through the profit and loss	42,027,184	42,234,171
Debt instruments measured at amortised cost	11,106,427	7,985,557
	53,133,611	**50,219,728**

Financial assets that are equity instruments measured at fair value	**0**	**0**
Financial liabilities measured at amortised cost	**1,553,061**	**1,729,640**

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

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

27. POST EMPLOYMENT BENEFITS

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

An actuarial valuation of the scheme was carried out on 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:

	2022	2021
Rate of increase in pensions in payment	3.90%	3.70%
Discount rate	5.45%	2.05%
Inflation assumption	3.90%	3.70%

The mortality assumptions used in the valuation of the defined benefit scheme liabilities of the plan have been selected to reflect the characteristics and experience of the Membership of the plan. The mortality assumption for 2022 follows the table known as S3NA with CMI 2021 projections. The mortality assumption for 2021 follows the table known as S3NA with CMI 2020 projections. The assumption for the long-term improvement rate in both years is 1%.

	2022
Changes in the fair value of the scheme assets are as follows:	**£000's**
Opening fair value of scheme assets	11,677
Interest income	236
Return on assets less interest	(6,166)
Contributions	160
Benefits paid	(178)
Administration cost	(336)
Closing fair value of scheme assets represented by insurance contract with L&G	**5,393**

	2022
Changes in the present value of the defined benefit obligation are as follows:	**£000's**
Opening defined benefit obligation	11,677
Reversal of restricted liability to derecognize surplus of prior years	(2,782)
Adjusted Opening defined benefit obligation	8,895
Interest cost	181
Benefits paid	(178)
Past service cost	36
Change in demographic assumptions	5
Changes to financial assumptions	(3,235)
Closing defined benefit obligation	**5,704**

	2022	2021
The amounts recognised in the profit and loss account are as follows:	**£000's**	**£000's**
Analysis of the amount charged to operating profit:		
Administration costs	336	224
Total operating charge	**336**	**224**
Analysis of the amount credited to other finance income:		
Interest return on pension scheme assets	(236)	(175)
Interest on pension scheme liabilities	181	148
	(55)	**(27)**
Total	**281**	**197**
Actual return on assets	**(5,930)**	**554**

27. POST EMPLOYMENT BENEFITS (continued)

The fair value of the plan assets can be summarised as follows:	2022	2021
Multi-asset funds	0%	34%
Absolute return bond funds	0%	32%
Cash	0%	1%
Liability driven investment	0%	33%
Insurance Policy with L&G	100%	-

	2022	2021
The amounts recognised in the statement of financial position are as follows:	£000's	£000's
Fair value of assets	5,393	11,677
Present value of funded obligations basic calculation	(5,704)	(8,895)
Surplus / (Deficit) in scheme	(311)	2,782
Restriction to surplus	nil	(2,782)
Net Pension (Deficit)	(311)	nil

The standard FRS 102 calculation based upon the parameters disclosed above resulted in a deficit of £311k.

However, given that between the end of the Financial Year 2021 and signing our Annual Report for 2021, the Pension Trustees entered into a buy-in transaction with Legal and General to match the liabilities of the defined benefit Cornish Mutual Pension Scheme with an insurance policy. The liabilities will transfer to L&G and the pension scheme will be fully transferred in the next financial year. The first stage for the transfer was the purchase of an insurance contract to cover the liabilities of the scheme. In consideration for this insurance contract, the assets of the scheme were transferred to L&G. The movement in the value of the assets reflects the movement in the value of the insurance contract, which has moved as a result of the reduction in the underlying liability of the scheme.

28. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2022	2021
	£	£
Trade creditors	973,479	950,168
Other taxation and social security costs	914,128	92,678
Other creditors	30,018	34,015
Corporation tax	0	0
Amounts owed to a subsidiary undertaking	0	0
	1,917,625	1,076,861

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 £73k (2021: £67k) of which £26k (2021: £14k;) was still due at the year-end through normal use of instalment payment terms available to all Members. £5,736 (2021: £7,203) 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 £29k (2021: £20k) with a further £40k (2021: £10k) 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

	2022	2021
Operating lease commitments as lessee	£	£
Expiry date:		
- within one year	92,878	109,747
- between one and five years	93,358	158,662
- after five years	0	0
	186,236	268,409

The cost recognised in profit and loss in respect of operating lease commitments in the current year was £145,271 (2021: £176,405).

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

Chartered Insurer

Cornish Mutual