



Front cover: St Ebbe's Church, Oxford

St Ebbe's Church, Oxford seeks to serve people who live, work and study in the middle of Oxford, aiming to build them up in the knowledge and love of God, so that they might in turn serve their communities in the UK and worldwide. A dramatic renovation of the building during 2017 has greatly increased the capacity for Sunday services and mid-week events.

Renovations included the installation of a gallery and modern lighting, heating, and flooring. In addition, a nearby nightclub has been repurposed for children's work and teaching and it is hoped that renewed catering facilities will be provided in 2018 to match the needs of the growing congregations.

"Support from Methodist Chapel Aid Ltd has been a key part of the project so far: thoughtful encouragement and a timely significant loan have permitted the work to proceed within strict time constraints."

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

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Chair's Statement

Economic background

The economic environment in the UK has remained uncertain, although broadly encouraging, during 2017, with the FTSE 100 closing the year at a record high for a second successive year. The Bank of England base rate was increased by 0.25% to 0.50% in November 2017.

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

The Company's performance

Throughout 2017 the Company has operated successfully and within its regulatory requirements. Once again the two most significant indicators of the Company's long term sustainability, namely adequate capital and sufficient liquidity, have proved to be very robust.

Capital adequacy

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

The Board's policy for many years has been to enhance its capital base by producing an annual operating surplus of approximately £100,000 prior to taking into account capital movements on the investment portfolio. This policy and practice has ensured that the Company's capital base has continued to grow each year and so has stayed well ahead of the minimum required by the regulators. This trend has continued in 2017 and the Strategic Report gives details of the further enhancement achieved in the Company's capital base.

The Board is well aware that the Company's capital could be eroded by factors outside of its control. Nevertheless, to date, major external factors have been avoided, and serious effects experienced elsewhere in the banking sector in recent years have had little impact on the Company.

Liquidity

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

Chair's Statement continued

The Company's Vision

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

Loans

The Company's committed loans, both drawn and undrawn have grown significantly during the year. This increase can be seen in the graph of lending shown in the Loans section of the Strategic Report.

This growing demand is expected to continue during the coming year in the form of increased enquiries and applications for loans for church property projects.

Non-Methodist (primarily Church of England) property loans now account for 55% of the total committed lending demonstrating the success of the Board's ongoing marketing strategy. In the case of some larger loans approved, these have not yet been advanced, mainly as a result of external factors such as planning permission taking longer than was originally anticipated. Several such large loans are expected to be advanced during the first half of 2018.

Deposits

Monies held on deposit with the Company remained largely unchanged during 2017, in line with the Board's strategy which is to maintain deposits at appropriate levels to support the Company's lending activities and manage the associated risks.

Interest Rates

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

Money market interest rates available to the Company generally remained low and continued to decrease throughout the first ten months of the year. As a result, the Company adjusted its savings interest rates from 15 January 2017, removing the tiered rate structure and reducing the rates for the largest balances. A further reduction in savings interest rates was implemented from 1 October 2017.

Chair's Statement continued

However, in November 2017 the Bank of England increased the base rate by 0.25%. Following this, the Company has been able to increase its savings rates for all accounts by 0.25% with effect from 1 January 2018. The interest rates charged on the Company's property loans have not been increased, consistent with the Company's aim of charging the lowest practicable rate of interest to church borrowers.

It seems likely that interest rate pressures will continue to be felt during most if not the whole of 2018. Nevertheless, the Company aims to remain competitive and to provide a high quality of service to its customers.

Strategic Planning

An element of the Company's governance policy and practice is for the Directors to meet informally to review strategic issues in more depth. Such an event is planned for 2018 to cover issues such as policy development (including a review of lending policy), sustainable lending growth, advertising and marketing, governance (including succession planning) and to ensure that the organisation adapts as appropriate to changing economic times.

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

Regulatory issues

The Board is liaising closely with the regulators in relation to several new regulatory initiatives which become effective in 2018 and beyond. Whilst the new demands being made on institutions within the industry are significant, the Company is confident of fulfilling its obligations in this respect.

The Board

During 2017 there were no changes to the membership of the Board, and a continuing system of retirement and re-appointment of Directors by rotation remained fully operational. At recent meetings of the Nomination Committee and the Board, it was concluded that the Board has a wide cross-section of experience and knowledge. Succession planning, including for the Chair, was also discussed.

I wish to thank the Directors for their commitment to the Company.

Chair's Statement continued

The Staff

On behalf of the Board I would like to thank the Company's loyal and dedicated staff for their hard work and support during 2017.

Alan Pimlott

Chair

3 January 2018

Strategic Report

The Directors have pleasure in presenting their Strategic Report of the Company for the year ended 31 December 2017.

Principal Activities

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

In support of the Company's purpose it:

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

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

Board Strategy for the Company

The Board recognises its ongoing responsibility to keep under review its strategies through which it pursues its aims and objectives and its strategic planning is focused mainly on lending to Christian churches and associated organisations to support mission and to remain stable as a company by way of a sustainable model with appropriate risk management.

In recent years the Board has undertaken a comprehensive review of the Company's structure and strategy including the development of its Strategic Business Plan (SBP), a rolling 5-Year Plan setting out the Company's immediate and medium term plans to meet its objectives. This takes account of the economic context in which the Company operates as a bank taking deposits and making loans with regulatory responsibilities underlying its key functions.

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

a) Governance Review

The Board has continued to review its effectiveness during 2017 and ongoing work includes formalisation of succession planning and diversity strategy. These will be developed further during 2018.

Strategic Report

continued

b) Company Model

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

c) Shareholdings

The Company's Memorandum and Articles of Association have been updated twice during the past three years, to include the relevant changes in company law and to remove the financial liability on the partly-paid shares and to clarify the rights of the shareholders in the event of the Company being wound up.

In addition, work has been undertaken to identify possible risks arising from the share ownership limits in the Company's Articles of Association, particularly in relation to the current shareholder base, and further work will be done if necessary.

d) Advertising and Marketing

The Board has an ongoing objective to develop its communication to target the churches in new and contemporary ways. The format and content of the Company's website and publicity material is reviewed regularly.

Significant progress has been made in actively promoting the Company's loan services both to Methodist churches and to other denominations.

e) Lending Policy

A key aim of the strategy is to promote the Company both within and outside the Methodist Church, primarily to the larger denominations and organisations. A balance will be kept so that the optimum lending levels are identified and monitored in line with its advertising policy and plans. The level of loans, both drawn and undrawn, has grown significantly during 2017 in line with this strategy and non-Methodist property loans (primarily Church of England) now account for 55% of the total committed lending, demonstrating the success of this initiative to date.

The Board has carefully considered the risks associated with this growth and limits and early warning indicators have been agreed. These are monitored on a monthly basis.

Strategic Report continued

f) Sustainability Plans

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

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

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

Strategy for 2018 and beyond

The Board's key aims for 2018 and beyond are to increase the Company's loan book in a measured way to around £7 million by 2021 (although there remains the capacity for this figure to increase in line with demand), and to widen the Company's support for non-Methodist projects. However, the Board is clear that this planned growth should only be achieved from high-quality loan applications which satisfy the Company's risk assessment process. Internal limits (e.g. by borrower and denomination) are closely monitored within the Company's lending policy.

Growth in deposits is also planned, although at a controlled rate, partly owing to the Company's own internal supervision of its optimum level for deposits.

Strategic Report continued

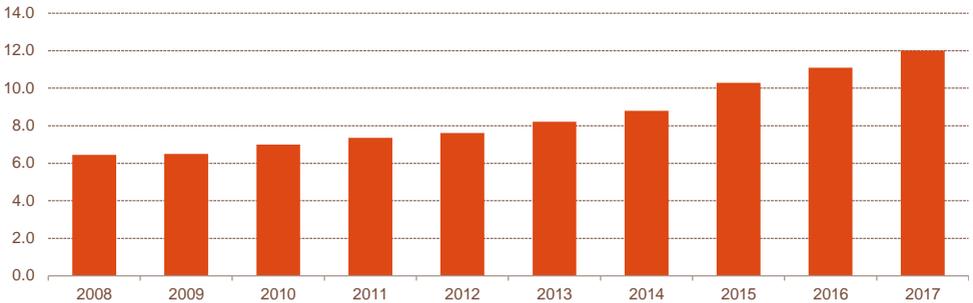
Overall Performance in 2017

During 2017 an operating surplus of £150,642 was achieved, £17,958 higher than that budgeted at the start of the year. This was largely as a result of savings in management expenditure.

As a consequence of this operating surplus, and movements in investments and the provision for deferred tax, the Company's reserves have risen by £926,934 during 2017. The graph below shows the increasing capital over the past ten years:

Reserves

£ million



The Company's Return on Assets for the year ended 31 December 2017 was 2.8% (2016: 2.3%). This reflects the current strength in the equity markets.

Strategic Report continued

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

Loans

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

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

	Amount £m			Number of loans		
	2015	2016	2017	2015	2016	2017
Loans balances at year end						
Term loans	2.6	3.4	4.4	26	31	29
Bridging loans	0.5	0.8	0.7	3	3	4
	3.1	4.2	5.1	29	34	33
Car loans	0.1	0.1	0.1	28	25	21
Total	3.2	4.3	5.2	57	59	54
Undrawn loans at year end	3.2	2.6	4.6	11	11	13
	6.4	6.9	9.8	68	70	67
Loan advances during year						
Property loans	3.6	4.3	3.1	17	25	14
Car loans	0.0	0.1	0.0	6	8	4
	3.6	4.4	3.1	23	33	18

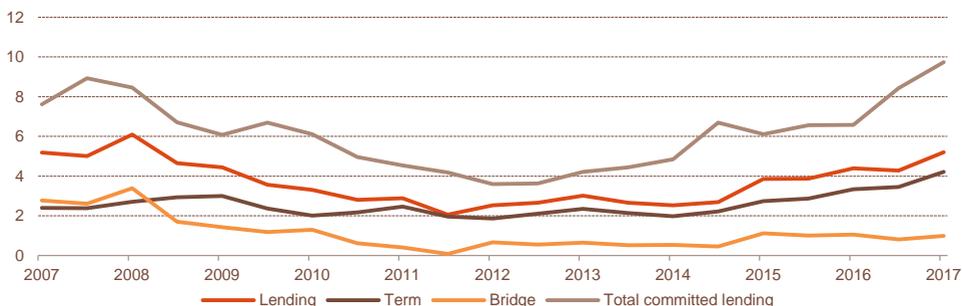
The benefits of the Company's ongoing advertising and marketing strategy are continuing to be realised with a 21% increase in property loan balances during 2017. This is shown in the graph below. In addition, enquiries have been made about loan facilities for some further significant projects and preliminary discussions have already taken place to assess their feasibility.

With regard to interest rates, those charged by the Company for property loans remained unchanged during the year, and were not increased following the Bank of England Base rate rise in November. The standard rate is 2.94% APR for term loans of above £25,000 and 4.05% APR for bridging loans. The Company's rate for car loans has remained at 5.00% APR fixed with a 0.5% discount incentive for car loan applicants who choose to purchase a car with low carbon dioxide emissions, i.e. one which falls within bands A to F of the government's car tax banding system.

Strategic Report continued

Total lending to Christian churches and associated organisations

£ million



Short term bridging loans now account for a much smaller percentage (approximately 15%) of the total loans than has been the case in the past, e.g. in 2008 the percentage had reached nearly 80%. This change has resulted in a more sustainable and stable loan book.

Deposits

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

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

The Company always seeks to ensure that every deposit is kept safe, and that as far as practicable it generates a competitive level of return. The Board has sought to protect as far as possible the interest rates paid to depositors. However, money market interest rates available to the Company remained low and continued to decrease throughout the first ten months of the year. As a result, the Company adjusted its savings interest rates from 15 January 2017, removing the tiered rate structure and reducing the rates for the largest balances. A further reduction in savings interest rates was implemented on 1 October 2017.

In November 2017 the Bank of England increased the base rate by 0.25%. Following this, the Company has been able to increase its savings rates for all accounts by 0.25% with effect from 1 January 2018.

Strategic Report continued

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

The amount held on deposit with the Company remained relatively stable during the year in line with the Board's strategy, with the total as at 31 December 2017 being £21,344,785. Withdrawals during the year represented 14% of the balance of deposits at the start of the year and new deposits amounted to 13%. The Company saw 39 new savings accounts opened during the year. The total number of accounts held with the Company totalled 3,223 as at 31 December 2017 (3,303 in 2016). The total amount held on deposit as at 31 December 2017 included 32% held in Premium Plus Accounts, 25% in ISAs and 11% in Child Trust Fund (CTF) Accounts.

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

Deposits at year end

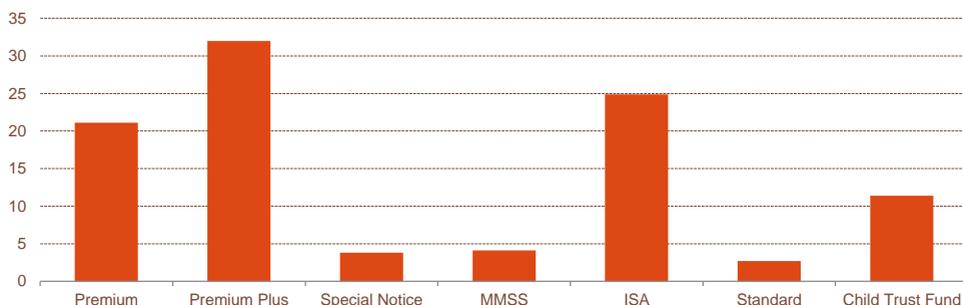
£ million



Strategic Report continued

Account Types at year end

% of funds held in accounts



Investments

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

As at 31 December 2017 the total carrying value of equity shares and debt securities amounted to £16,212,806 (2016: £15,868,251). This comprised £3,483,800 (2016: £3,213,676) dated treasury stocks, £2,282,034 (2016: £2,768,351) commercial loan stocks, £2,356,717 (2016: £1,958,414) bond funds and £8,090,285 (2016: £7,927,810) equity shares and similar investments. In addition, the Company held £11,252,440 of cash and deposits with other UK financial institutions (2016: £12,174,432).

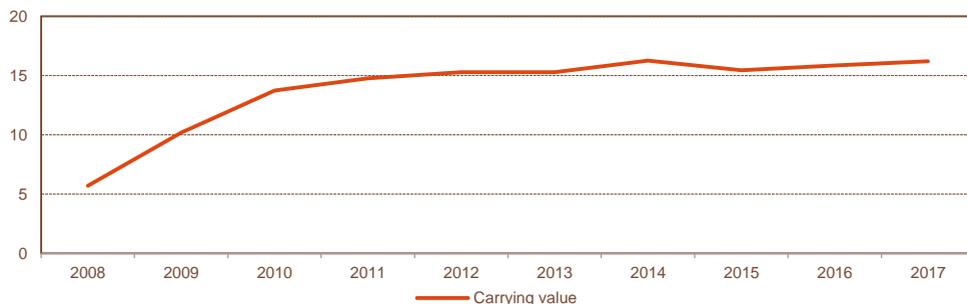
A provision for the amortisation of the premium of dated treasury and commercial loan stocks was made amounting to £54,842 for the year (2016: £52,449). This is the write-off of the difference between the purchase price of a bond and its final maturity value, over the remaining term. The total provision is now £253,310 (2016: £202,636).

There was a positive fair value adjustment to the Company's investment portfolio in the year of £735,448 and after allowing for realised capital adjustments, a total fair value adjustment of £729,845 (2016: £666,013) which is shown in the Statement of Income and Retained Earnings. The increase in the total market value of the investments is shown in the graph overleaf.

Strategic Report continued

Investments at year end

£ million



It is important to note the Company's policy of holding investments is for the long term and that it is not an investment trading company.

The Company continued to be grateful to its Investment Manager, Sarasin & Partners LLP, for its services provided during the year.

Ethical Investing Policy

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

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

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

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

In some cases it may be appropriate for the Company to hold collective investment funds in order to secure asset allocation within its investment portfolio. Where this is the case the Company does not have the ability to screen the underlying portfolio of the fund."

Strategic Report continued

Other Matters

Capital Adequacy

The Company holds capital in order to provide a buffer against possible losses in times of financial stress. In common with all other UK banks the Board carried out rigorous stress testing on its capital and liquidity levels during 2017 and calculated that in addition to the minimum requirement of €5 million a further internally-calculated capital buffer should be retained as a buffer against future stresses on the Company's capital resources, although there has never been a need to call upon this buffer. Even after making this allowance and including regulatory deductions, there remained substantial headroom above the combined €5 million and buffer threshold.

Looking ahead, the Board has budgeted for an operating surplus in 2018 of approximately £130,000.

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

Risk Appetite Statement

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

Principal Risks

The principal risks faced by the Company are:

Business Risk

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

Risk Appetite

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

Mitigation

As part of the annual budgeting and planning process, the Company develops a set of management actions to prevent or mitigate any negative impact on earnings in the event that

Strategic Report

continued

business risks materialise. Additionally, business risk monitoring, through regular reports and oversight, enables the Company to implement corrective actions to plans and reductions in exposures where necessary.

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

Liquidity Risk

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

Risk Appetite

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

a) Internal measurement

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

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

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

Strategic Report

continued

b) Liquidity coverage ratio (LCR)

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

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

Mitigation

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

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

Market and Interest Rate Risk

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

Risk Appetite

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

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

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

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

Strategic Report

continued

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

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

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

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

Mitigation

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

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

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

Operational and Regulatory Risk

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

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

Strategic Report continued

Risk Appetite

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

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

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

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

Mitigation

The Company undertakes the following:

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

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

Credit Risk

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

Credit risk appetite (wholesale markets)

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

Strategic Report continued

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

Mitigation

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

Credit risk appetite (retail markets)

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

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

Mitigation

Financial risk assessments are undertaken on all term property loans (including review of accounts covering three years) and loans are approved in accordance with defined limits and due consideration given to the collateral. All property loans require the approval of at least one non-executive Director and/or the Chief Executive.

Capital Risk

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

Risk Appetite

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

Strategic Report continued

Mitigation

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

The Company adopts a prudent and responsible approach to the management of capital and has prepared a detailed ICAAP document which was approved by the Board and in response to which the PRA felt able to issue Individual Capital Guidance (ICG) to the Company.

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

Remuneration Risk

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

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

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

Pillar 3 disclosures

A fuller description of these risks and controls can also be found in the Company's Pillar 3 Disclosure Statements for the year ending 31 December 2017. These disclosures are published in the Financial Information section of the Company's website:

<https://www.mcafundingforchurches.co.uk/financial-information>.

Treatment of Customers

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

In the final quarter of 2017 the Board sent out a further Customer Satisfaction Survey to a proportion of its depositors, borrowers with property loans and borrowers with car loans.

For the two questions analysed by the Company the results are summarised overleaf. A 6 point score total was used, 6 being the best score. Only one of the 51 replies received implied concern by using scores 1 to 3.

Strategic Report continued

Customer survey satisfaction results:

	Depositors (score out of 6)	Borrowers with property loans (score out of 6)
Level of satisfaction with documentation provided by MCA		
(a) clarity and conciseness of content	5.6	5.5
(b) quality of presentation	5.6	5.3
Level of satisfaction with communication and assistance provided by MCA		
(a) before the account was opened	5.7	6.0
(b) after the account was opened	5.6	6.0

No complaints were received from customers during 2017.

Signed by order of the Directors

Steven Jones BA FCCA
Company Secretary

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

Approved by the Directors on 20 February 2018

Directors' Report

The Directors have pleasure in presenting their report and the financial statements of the Company for the year ended 31 December 2017.

Directors

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

	Ordinary A shares of £0.25 each		Amounts held on deposit	
	At 31 Dec 2017 No.	At 31 Dec 2016 No.	At 31 Dec 2017 £	At 31 Dec 2016 £
Alan Pimlott	143	143	29,522	39,279
James Booth	–	–	–	–
Jeremy Burchill	200	200	–	–
Paul Ferguson	–	–	–	–
Peter Forward	200	200	–	–
Christopher Jarratt	61	48	–	–
Anne Goodman	–	–	–	–
Peter Mills	175	175	–	–
Andrew Slim	166	166	77,199	40,812
	945	932	106,721	80,091

Corporate Governance

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

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

The Company has an Audit and Risk Committee, consisting of four non-executive Directors (Jeremy Burchill, Chair, James Booth, Anne Goodman and Peter Mills), which meets at least four times annually and ensures that the recommendations of the Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA) and the external auditors are considered

Directors' Report

continued

in full and implemented, where appropriate. It also oversees the work and considers the reports of the Company's internal audit function, reviewing the implementation of its recommendations where appropriate, and considers the effectiveness of internal controls. To comply with the requirements of legislation and to ensure prudent management of the business, the Company has established a range of internal controls, which have operated effectively throughout the year.

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

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

Supervision

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

Proposals

- The Directors propose a dividend of 21.25 pence per fully paid A share and £8.50 per fully paid B share of the Company, payable on 30 April 2018. (Detailed in note 10 of the financial statements).
- Peter Forward, Christopher Jarratt and Andrew Slim retire by rotation and, being eligible, offer themselves for re-election for a three year term.
- The independent auditor, Beever and Struthers, has indicated its willingness to continue in office and its appointment for 2018 is proposed.

Directors' Report continued

Donations

For many years the Company's policy has been to make donations at the level of 10% of the previous year's operating surplus to a number of Christian charities reflecting the Company's business and heritage. During the year the Company made the following contributions to 7 charities (2016: 7 charities):

	2017 £	2016 £
Charitable	13,800	15,000

Strategic Report

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

Directors' Responsibilities Statement

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the surplus or deficit of the Company for that period.

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

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

Directors' Report continued

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

In so far as the Directors are aware:

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

Signed by order of the Directors

Steven Jones BA FCCA
Company Secretary

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

Approved by the Directors on 20 February 2018

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

Opinion

We have audited the financial statements of Methodist Chapel Aid Limited for the year ended 31 December 2017 which comprise the Statement of Income and Retained Earnings, the Statement of Financial Position, the Statement of Cash Flows and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

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.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC) Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

continued

Conclusions Relating to Going Concern

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

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key Audit Matters

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

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

continued

Key Audit Matter

How Our Audit Responded to the Key Audit Matter

Property Loan Provisioning

At 31 December 2017 the property loan book totalled £5.13m (2016: £4.18m) as shown in note 13 of the financial statements. No provision has been recorded against these loans.

The determination of impairment provisions is a highly subjective and judgemental area and there is regulatory scrutiny with respect to provisioning levels. Note 2 of the financial statements (accounting policies) discloses the provisions policy. The loan provision is considered a key source of estimation uncertainty and this is disclosed within the accounting policies notes – Judgements and key sources of estimation uncertainty.

The Company has expanded its loan lending criteria in recent years and has seen an increase in concentration risk due to fewer, but individually larger, loans.

We have identified property loan provisioning as one of the most significant assessed risks of material misstatement. On this basis we have identified this as a key audit matter

Our audit work included but was not restricted to the following:

- We understood and assessed the loan application procedure including the challenge by the Board of the loans recommended for approval. We tested the adherence to the loan lending and security taking policy and found the procedures in place were operating effectively.
- We understood and evaluated management's criteria for determining whether an impairment event had occurred and therefore whether there was a requirement to calculate an impairment provision. Each loan was considered for impairment individually. No loans were identified as impaired at the balance sheet date for which the Company did not have satisfactory security.
- We reviewed all loans outside the repayment terms at the balance sheet date for recoverability. These are disclosed in note 18 of the financial statements. Additionally, we specifically reviewed each extended loan for indicators of impairment. No loans were identified as impaired at the balance sheet date for which the Company did not have satisfactory security.

Based on the procedures performed and evidence obtained, we found management's assumptions to be reasonable and did not identify any issues or misstatements that require reporting to the Audit and Risk Committee

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

continued

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

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

The materiality for the financial statements as a whole for the year ended 31 December 2017 was £292,000 (2016: £282,000) determined with reference to the average of the following benchmarks:

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

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

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

We determined the threshold at which we will communicate misstatements to the Audit and Risk Committee to be £14,000.

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

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

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

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

continued

Other Information

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

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

We have nothing to report in this regard.

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on Which We are Required to Report by Exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

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

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

continued

Responsibilities of Directors

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

Other Matters which we are Required to Address

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

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

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

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

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

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

David Hunter
(Senior Statutory Auditor)

For and on behalf of

Beever and Struthers
Chartered Accountants & Statutory Auditor

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

20 February 2018

Statement of Income and Retained Earnings

For the year ended 31 December 2017

	Note	2017 £	2016 £
Interest receivable – on loans	3	150,120	140,331
Interest receivable – on debt securities	3	326,582	329,862
Interest receivable – on National Savings and bank deposits	3	42,354	89,504
Interest payable to depositors		(182,991)	(263,234)
Interest payable - amortisation of debt securities	12	(54,842)	(52,449)
Dividend income from equity shares	3	271,126	287,571
Investment gains on debt securities		4,681	24,643
Fees and commissions payable		(52,371)	(66,220)
Other operating income	4	7,218	3,925
Administrative expenses – staff costs	7&8	(180,526)	(179,379)
Administrative expenses – other		(162,332)	(162,246)
Depreciation	11	(18,377)	(14,038)
Operating surplus	5	150,642	138,270
Fair value adjustment to investments	12	729,845	666,013
Surplus on ordinary activities before taxation		880,487	804,283
Tax on surplus on ordinary activities	9	47,426	(46,629)
Surplus for the financial year and total comprehensive income		927,913	757,654
Dividends paid and payable	10	(979)	(967)
Retained earnings at the start of the year		11,070,315	10,313,628
Retained earnings at the end of the year		£11,997,249	£11,070,315

All the activities of the Company are from continuing operations.

The notes on pages 36 to 57 form part of these financial statements.

Statement of Financial Position

As at 31 December 2017

	Note	2017 £	2016 £
Assets			
Tangible fixed assets	11	50,429	66,102
Investments	12	16,212,806	15,868,251
Cash and bank balances		11,252,440	12,174,432
Loans and advances to customers	13	5,210,921	4,295,209
Prepayments, accrued income and other assets	13	99,700	92,648
Investments held for short term purposes	14	750,539	476,027
Total Assets		33,576,835	32,972,669
Liabilities			
Customer Accounts	15	21,344,785	21,572,515
Other Liabilities	15	85,883	88,824
Total Liabilities		21,430,668	21,661,339
Provisions			
Taxation including deferred tax	16	147,721	239,818
Net Assets		£11,998,446	£11,071,512
Shareholders' Funds			
Called up equity share capital	19	1,197	1,197
Reserves		11,997,249	11,070,315
		£11,998,446	£11,071,512

These financial statements were approved by the Board of Directors and authorised for issue on 20 February 2018, and are signed on behalf of the Board by:

Alan Pimlott

Chair

Peter Mills

Director

Christopher Jarratt

Director

Company registration number: 30546

The notes on pages 36 to 57 form part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2017

	2017 £	2016 £
Cash flows from operating activities		
Surplus for the financial year	927,913	757,654
<i>Adjustments for:</i>		
Depreciation of tangible assets	18,377	14,038
Amortisation of investments	54,842	52,449
Fair value adjustment to investments	(729,845)	(666,013)
Tax on surplus on ordinary activities	(47,426)	46,629
Accrued (income)/expenses	(18,101)	(4,972)
<i>Changes in:</i>		
Trade and other debtors	(10,347)	13,086
Trade and other creditors	355	(9,215)
Loans advanced to customers	(915,712)	(1,103,648)
Customer accounts	(227,730)	13,086
Cash generated from operations	(947,674)	161,846
Tax paid	(26,571)	-
Net cash (used in)/from operating activities	(974,245)	161,846
Cash flows from investing activities		
Purchase of tangible assets	(2,704)	(16,353)
Purchase of investments	(3,084,605)	(3,763,534)
Proceeds from sale of investments	3,415,053	3,951,723
Net cash from investing activities	327,744	171,836
Cash flows from financing activities		
Dividends paid	(979)	(967)
Net cash used in financing activities	(979)	(967)
Net (decrease)/increase in cash and cash equivalents	(647,480)	332,715
Cash and cash equivalents at beginning of year	12,650,459	12,317,744
Cash and cash equivalents at end of year	£12,002,979	£12,650,459
Consisting of		
Cash	11,252,440	12,174,432
Short term liquid investments	750,539	476,027
Cash and cash equivalents at end of year	£12,002,979	£12,650,459

The notes on pages 36 to 57 form part of these financial statements.

Notes to the Financial Statements

1 General Information

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

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

2 Accounting Policies

Statement of Compliance

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

Basis of Preparation

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

Going Concern

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

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

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

Notes to the Financial Statements continued

2 Accounting Policies continued

Judgements and Key Sources of Estimation Uncertainty

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

Key sources of estimation uncertainty

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

- Determination of recoverability of loans made to customers:

Property loans: A specific provision is made against customer loans, where, in the opinion of the Directors, the loan is not fully recoverable. An impairment provision of £nil (2016: £nil) was recognised in respect of property loans totalling £5,132,252 (2016: £4,175,099) of which £972,672 (2016: £643,066) are unsecured. Note 18 contains further details of the impairment consideration.

Car Loans: A general provision is made against those unsecured advances which have not been specifically identified as impaired, but where the Company's experience and the general economic climate indicate that losses may ultimately be realised. A general provision of £2,017 (2016: £3,080) has been recognised in respect of car loans totalling £80,686 (2016: £123,190).

Significant judgements

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

Notes to the Financial Statements continued

2 Accounting Policies continued

Revenue and Expenses Recognition

Investment Income

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

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

Interest receivable

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

Interest payable

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

Other income and expenses

Other income and expenses are recognised on an accruals basis.

Income Tax

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

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

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

Notes to the Financial Statements continued

2 Accounting Policies continued

Operating Leases

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

Tangible Assets

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

Depreciation

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

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

Investments

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

Equity investments are treated as other financial instruments.

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

Impairment of Fixed Assets

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

Notes to the Financial Statements

continued

2 Accounting Policies continued

Provisions

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

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

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

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

Financial Instruments

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

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

Debt instruments are subsequently measured at amortised cost.

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

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

Notes to the Financial Statements continued

2 Accounting Policies continued

Financial Instruments continued

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

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

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

Cash and Cash Equivalents

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

3 Income

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

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

4 Other Operating Income

	2017	2016
	£	£
Loan administration fees received and sundry income	7,218	3,925

Notes to the Financial Statements continued

5 Operating Surplus

Operating surplus is stated after charging / (crediting):

	2017 £	2016 £
Depreciation of tangible assets	18,377	14,038
Amortisation of investments	54,842	52,449
Fair value movement on investments	(729,845)	(660,013)
Release of bad debt provision (car loans)	(1,063)	(85)
Operating lease costs - land and buildings	6,500	6,500
Operating lease costs - other equipment	1,196	1,196

6 Auditor's Remuneration

	2017 £	2016 £
Fees payable for the audit of the financial statements	16,800	12,000
Fees payable to the Company's auditor and its associates for other services:		
Other non-audit services	5,600	5,871

7 Staff Costs

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

	2017 No.	2016 No.
Administrative staff	2	2
Management staff	1	1
	3	3

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

	2017 £	2016 £
Wages and salaries	73,543	74,686
Social security costs	6,316	6,345
	79,859	81,031

Notes to the Financial Statements

continued

8 Directors' Remuneration

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

	2017 £	2016 £
Remuneration	92,850	90,874
Social security costs	7,817	7,474
Expenses	6,337	8,359
	107,004	106,707

The above aggregate remuneration includes the Company's 1 executive Director (2016: 1) and 8 non-executive Directors (2016: 8). The non-executive Directors are not involved in the daily management or operations of the Company.

9 Tax on Surplus on Ordinary Activities

Major components of tax (income)/expense

	2017 £	2016 £
Current tax:		
UK current tax expense	25,825	7,725
Adjustments in respect of prior periods	18,846	-
Total current tax	44,671	7,725
Deferred tax:		
Origination and reversal of timing differences	(92,097)	38,904
Tax on surplus on ordinary activities	(47,426)	46,629

Notes to the Financial Statements

continued

9 Taxation on Ordinary Activities continued

Reconciliation of tax (income)/expense

The tax assessed on the surplus on ordinary activities for the year is the same as (2016: same as) the standard rate of corporation tax in the UK of 19.25% (2016: 20%).

	2017 £	2016 £
Surplus on ordinary activities before taxation	880,487	804,283
Surplus on ordinary activities by rate of tax	169,494	160,857
Items not allowable for tax purposes	(183)	(1,113)
Exempt dividend income	(52,192)	(57,514)
Non-chargeable investment gains	(182,362)	(55,601)
Adjustments to tax charge in respect of previous periods	18,846	-
Marginal relief/effect of reduced rates of tax	(1,029)	-
Tax on surplus on ordinary activities	(47,426)	46,629

10 Dividends

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

	2017 £	2016 £
Ordinary A shares at 20.45p (2016: 20.20p)	840	830
Ordinary B shares at £8.18 (2016: £8.08)	139	137
	979	967

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

	2017 £	2016 £
Ordinary A shares at 21.25p (2016: 20.45p)	873	840
Ordinary B shares at £8.50 (2016: £8.18)	145	139
	1,018	979

Notes to the Financial Statements

continued

11 Tangible Assets

	Leasehold Improvements £	Office Equipment £	Computer Equipment £	Total £
Cost				
At 1 January 2017	27,857	14,838	89,821	132,516
Additions	–	569	2,135	2,704
Disposals	–	–	–	–
At 31 December 2017	27,857	15,407	91,956	135,220
Depreciation				
At 1 January 2017	27,842	14,177	24,395	66,414
Charge for the year	7	254	18,116	18,377
Disposals	–	–	–	–
At 31 December 2017	27,849	14,431	42,511	84,791
Carrying amount				
At 31 December 2017	8	976	49,445	50,429
At 31 December 2016	15	661	65,426	66,102
			2017 £	2016 £
Capital Commitments				
Contracted but not provided for in the financial statements			–	–

Notes to the Financial Statements continued

12 Investments

	Debt and fixed income securities £	Equity investments £	Total £
Cost			
At 1 January 2017	8,143,077	7,927,810	16,070,887
Additions	947,316	2,137,289	3,084,605
Disposals	(733,245)	(2,691,619)	(3,424,864)
Fair value adjustment	18,683	716,805	735,488
At 31 December 2017	8,375,831	8,090,285	16,466,116
Amortisation			
At 1 January 2017	202,636	–	202,636
Charge for year	54,842	–	54,842
Disposals	(4,168)	–	(4,168)
At 31 December 2017	253,310	–	253,310
Carrying amount			
At 31 December 2017	8,122,521	8,090,285	16,212,806
At 31 December 2016	7,940,441	7,927,810	15,868,251

The investments held at amortised cost have a market value of £6,331,269 (2016: £6,636,682) (including interest accrued of £39,803 (2016: £41,850)).

The investments held at fair value have a historical cost of £8,598,019 (2016: £8,418,200).

If the above investments were realised at the date of the statement of financial position, a corporation tax liability would arise on gains/losses made in the region of £150,000 (2016: £220,000) assuming a tax rate of 19.25% (2016: 20%).

Notes to the Financial Statements continued

13 Debtors

Loans and advances to customers

				2017 £	2016 £
Loans and advances to customers				5,210,921	4,295,209

	At 31 Dec 2016 £	Advanced £	Repaid £	Released/ (provided) £	At 31 Dec 2017 £
Property loans - secured	3,532,033	1,853,318	(1,225,771)	–	4,159,580
Property loans - unsecured	643,066	1,279,070	(949,464)	–	972,672
Property loans - total	4,175,099	3,132,388	(2,175,235)	–	5,132,252
Car loans - unsecured	123,190	26,350	(68,854)	–	80,686
	4,298,289	3,158,738	(2,244,089)	–	5,212,938
Provision for bad debts	(3,080)	–	–	1,063	(2,017)
	4,295,209	3,158,738	(2,244,089)	1,063	5,210,921

Analysis of maturity of loans and advances to customers

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

	2017 £	2016 £
Due within 3 months	12,201	9,959
In more than 3 months but not more than 1 year	1,211,741	1,183,851
In more than 1 year but not more than 5 years	1,588,387	1,241,379
In more than 5 years	2,400,609	1,863,100
Less provision for bad debts	(2,017)	(3,080)
	5,210,921	4,295,209

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

Notes to the Financial Statements continued

13 Debtors continued

Prepayments, accrued income and other assets

	2017 £	2016 £
Prepayments and accrued income	99,700	92,648

14 Investments held for short term purposes

	2017 £	2016 £
Funds held short-term by Sarasin & Partners LLP for investment	750,539	476,027

15 Liabilities

Customer Accounts

	2017 £	2016 £
Customer Accounts	21,344,785	21,572,515

Amounts standing to the credit of depositors:

	2017 £	2016 £
At 1 January 2017	21,572,515	20,510,677
Received	2,833,920	3,581,999
Withdrawn	(3,061,650)	(2,520,161)
At 31 December 2017	21,344,785	21,572,515

Analysis of maturity of customer accounts

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

	2017 £	2016 £
In one year or less or repayable on demand	18,100,561	18,446,709
In more than one year but not more than two years	803,463	803,463
In more than two years (Child Trust Funds)	2,440,761	2,322,343
	21,344,785	21,572,515

Notes to the Financial Statements continued

15 Liabilities continued

Other Liabilities

	2017 £	2016 £
Corporation tax	25,825	7,725
Other taxation and social security	5,250	4,895
Accruals and deferred income	54,808	76,204
	85,883	88,824

16 Deferred Tax

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

	2017 £	2016 £
Included in provisions (note 17)	147,721	239,818

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

	2017 £	2016 £
Excess of taxation allowances over depreciation of fixed assets	8,083	11,874
Provision for fair value adjustments to investments	139,638	227,944
	147,721	239,818

17 Provision

The movement in the deferred taxation account during the year was:

	Deferred tax (note 16) £
At 1 January 2017	239,818
Charge against provision	(92,097)
At 31 December 2017	147,721

Notes to the Financial Statements continued

18 Financial Instruments

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

Financial assets:

	2017 £	2016 £
Financial assets measured at fair value through income or expenditure		
– Investments	10,447,001	9,886,226
Financial assets that are debt instruments measured at amortised cost		
– Investments	5,765,805	5,982,025
– Cash and balances at central banks	11,252,440	12,174,432
– Cash held in investment portfolio	750,539	476,027
– Loans and advances to customers:		
– Property loans	5,132,252	4,175,099
– Car loans	78,669	120,110
	22,979,705	22,927,693

Note 13 includes details of other financial assets held at amortised cost.

Financial liabilities:

	2017 £	2016 £
Financial liabilities measured at amortised cost		
– Customer deposit accounts	(21,344,785)	(21,572,515)

Note 15 includes details of other financial liabilities measured at amortised cost.

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

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

Credit Risk

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

Notes to the Financial Statements

continued

18 Financial Instruments continued

Credit Risk continued

For each of the Company's holdings in financial instruments, i.e. loans, investments and bank deposits, the Company's maximum exposure to credit risk is the carrying value as shown in the statement of financial position, plus the committed undrawn loans of £4.6 million (2016: £2.6 million). This maximum exposure is before taking into account any underlying security and the Company has no exposure to derivatives or similar instruments.

Customer default risk

In total, £4.1 million (2016: £3.5 million) of the Company's £5.1 million (2016: £4.2 million) property loans were secured by legal charge (or equivalent) on church buildings or manses. In addition, for unsecured bridging loans totalling £0.7 million (2016: £0.4 million), the Company has obtained undertakings from the appropriate solicitors to repay the proceeds from sale of properties currently being marketed for sale. The remaining loans of £0.3 million (2016: £0.3 million) are generally smaller unsecured loans.

As at 31 December 2017 the Company had one secured loan (2016: 2 loans) which was neither past due nor impaired but for which a capital repayment extension had been agreed. The capital balance of this loan was £450,702 (2016: 454,557) and the interest repayment due on 31 December 2017 was received on a timely basis.

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

	As at 31 December 2017		As at 31 December 2016	
	Balance overdue £	Balance of loans £	Balance overdue £	Balance of loans £
Up to 1 month overdue	32,178	482,500	9,945	39,650
Over 1 month overdue	–	–	–	–

The Company's property term loans are repayable in semi-annual instalments on 30 June and 31 December each year. The above balances overdue represent repayments that were due on 31 December but received after that date.

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

The Company has never suffered any bad debts on property loans in its history and therefore no collective impairment provision has been included in respect of these. However, a collective provision of £2,017 (2016: £3,080) has been included in respect of the £80,686 (2016: £123,190) balance of unsecured car loans.

Notes to the Financial Statements continued

18 Financial Instruments continued

Credit Risk continued

The Company has not taken possession of any collateral it holds as security for loans during 2017 (2016: none).

Treasury credit risk

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

The Company does not engage in wholesale deposit lending other than with UK interbank counterparties with strong long term credit ratings (minimum Moody's rating of Baa3 for UK banks / building societies and A3 for overseas banks / building societies), or allow placements exceeding the Company's large exposures capital base (subject to the PRA pre-notification rules). The amount of deposits placed with any one bank is limited to 25% of the Company's regulatory capital. The maximum term of any deposit as at 31 December 2017 was 6 months (2016: 6 months).

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

As at 31 December 2017 and at 31 December 2016 none of the treasury assets were past due or impaired.

Liquidity Risk

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

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

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

Notes to the Financial Statements continued

18 Financial Instruments continued

Liquidity Risk continued

	Total £	Less than 1 month (*) £	1 - 3 months £	3 months to 1 year £	1 to 5 years £	More than 5 years £
At 31 December 2017						
Customer deposits	21,344,785	13,701,549	6,839,773	–	803,463	–
Other liabilities	85,883	85,883	–	–	–	–
	21,430,668	13,787,432	6,839,773	–	803,463	–
At 31 December 2016						
Customer deposits	21,572,515	14,025,775	6,741,433	1,844	803,463	–
Other liabilities	88,824	88,824	–	–	–	–
	21,661,339	14,114,599	6,741,433	1,844	803,463	–

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

Market Risk

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

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

Interest Rate Risk

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

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

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

Notes to the Financial Statements

continued

18 Financial Instruments continued

Market Risk continued

The Company's deposits placed with other financial institutions are also variable rate with no fixed rate or fixed term deposits held as at 31 December 2017 (2016: none) and no deposits linked to other benchmarks.

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

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

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

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

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

	2017 £'000	2016 £'000
Net present Value Sensitivity to:		
Positive Shift (+2%)	(561)	(556)
Negative Shift (-2%)	676	660

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

Notes to the Financial Statements

continued

18 Financial Instruments continued

Market Risk continued

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

	2017 £'000	2016 £'000
Reduction in surplus	99	104

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

Foreign exchange risk

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

Market price risk

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

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

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

The main market risk relates to the volatility of the investments, particularly the equities and equity funds in response to market or investment-specific events. A 25% decrease in the market value of equity would result in a negative movement in the unrealised gain/loss on these investments totalling £2.0 million (2016: £2.0 million). The Company's capital would decrease by the same amount, but would remain well above the regulatory minimum.

Notes to the Financial Statements

continued

18 Financial Instruments continued

Capital Risk

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

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

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

The Company's actual regulatory capital, all of the highest quality 'Common Equity Tier 1', remained above that required by the regulatory limit and internal policy during 2017 (and 2016).

19 Called Up Share Capital

Issued, called up and fully paid:

	2017		2016	
	No	£	No	£
Ordinary A shares of £0.25 each	4,108	1,027	4,108	1,027
Ordinary B Shares of £10 each	17	170	17	170
	4,125	1,197	4,125	1,197

20 Operating Leases

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

	2017	2016
	£	£
Not later than 1 year	3,904	7,696
Later than 1 year and not later than 5 years	2,888	5,599
	6,792	13,295

Notes to the Financial Statements

continued

21 Related Party Transactions

Alan Pimlott (Director) is a member of the Board of the Trustees for Methodist Church Purposes. Anne Goodman (Director) is the Chief Executive of the Trustees for Methodist Church Purposes. The Trustees for Methodist Church Purposes hold, as full trustee of the MCA Charitable Trust, 30% (2016: 30%) of the share capital of the Company. It holds these shares for the charitable purposes of the Methodist Church generally.

Andrew Slim (Director) is a Trustee of Manchester Circuit. During 2016, a bridging loan of £200,000 was advanced to, and repaid by Manchester Circuit. Interest of £3,272 was received on the loan. No similar transactions occurred during 2017. At 31 December 2017, Manchester Circuit had deposit accounts with the Company totalling £41,629 (2016: £135,580).

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

22 Winding up

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

23 Controlling Party

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

Officers and Professional Advisers

The Board of Directors

As at 31 December 2017

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

Chief Executive

A Christopher Jarratt BSc FCA

Company Accountant and Company Secretary

Steven R Jones BA FCCA

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Registered in England and Wales No. 30546

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

Firm Reference No: 204508

Auditor

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Chartered Accountants & Statutory Auditor
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Principal Bankers

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City of London Branch
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EC4N 4TR

Solicitors

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Investment Manager

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