Annual report and accounts 2020

Front cover: St Michael & All Angels Church, Abbey Wood

St Michael & All Angels Church, Abbey Wood, has faithfully served its community and parish since 1908. Throughout that time, pollution, weathering and wartime bomb damage have dealt the building several blows, and the aim has been to restore it, and make it fit to serve the coming generations.

The £200,000 project has involved replacement and repointing of decayed stonework, attention and repointing to some brickwork, restoration and redecoration of all guttering and downpipes etc, cleaning of all stone and brick faces, restoration of all south clerestory windows, and the West Window. Some minor roofing repairs have been made, and full restoration carried out on the beautiful Kempe East Window and Lady Chapel Window, with new protective guards being fitted within the tracery of these windows, and also to all windows on the south side of the building. All external wooden doors and their metalwork have been redecorated, and the considerable “iron railings” boundary fence repainted in a fresh racing green colour. Parishioners are absolutely delighted with the results of the project, and long running “Architect`s Quinquennial Report” issues have been concluded to everyone`s satisfaction.

“Methodist Chapel Aid Ltd has been an excellent partner in this project. From the beginning its excellent team have showed great interest, and has been very friendly and helpful at all times and providing an appropriate loan to enable the project to go ahead with a comfortable ‘cash flow’ situation. The interest rate is very good, and the loan can be repaid early, if we want to, with no penalty. The staff have always been very professional, and are a pleasure to work with. The Methodist Chapel Aid loan has meant the project could be completed, whilst we continue to raise the final sums necessary. It was an immense help to us, and we are extremely grateful. Thank you.”

"Methodist Chapel Aid Ltd has been an excellent partner in this project."

MCA
Funding for Churches

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.

Contents

Chair's Statement

Economic background

2020 will be remembered as the year in which the coronavirus struck the UK. In addition to the loss of lives, there has been disruption to the activities of churches, with restrictions which included the enforced closure of church buildings for part of the year. Investment markets have experienced high levels of volatility, with falls in market values in February and March, largely recovered in the following months. The Bank of England base rate was cut twice in March from 0.75% to a record low of 0.10%. Following the departure of the UK from the EU on 31st January 2020, the UK and EU reached a trading agreement in December

In spite of the above challenges, 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 2020 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.

It has been encouraging to see the significant increase in term loans over the past year and this has been accommodated within the Board's policy parameters and in accordance with its strategic plans.

Effect of Covid-19

To date, the Company's borrowers have continued to make timely loan repayments, with a small number of requests for capital deferrals being considered sympathetically on a case-by-case basis. As at the year-end, no borrowers have indicated any longer-term difficulties in making the scheduled loan repayments.

In addition to the effect on the Company's borrowers and the operational challenges, Covid-19 has negatively affected the Company's investment income and interest received from deposits held with other financial institutions. Furthermore, the value of the Company's investments fell sharply during the first quarter of 2020. These risks were monitored closely by the Board and the Company's Investment Manager. By the year-end, the position had recovered with a profitable result achieved for the year as a whole.

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 is to enhance the Company's capital base by seeking to produce an annual operating surplus of approximately £100,000 in normal circumstances, prior to taking into

Chair's Statement continued

account capital movements on the investment portfolio. This policy has ensured that the Company's capital base has continued to stay well ahead of the minimum required by the regulators, even after the effects of volatility in the Company's investment values and income.

The Board is well aware that there is the risk that the Company's capital could be eroded by factors outside its control. Nevertheless, to date, ongoing difficulties experienced elsewhere in the banking sector have had little direct 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.

The Company's Vision

The Board recognises that the current financial reality of economic uncertainty may well continue for some time. However, the Company's policy of making loans to 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 churches and associated organisations, consistent with the aim of diversifying its core lending activity.

Loans

The Company's term loans have increased, as planned, during 2020 although this was more than offset by repayment of short-term bridging loans. The increase in term loan lending 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. In the case of some larger applications approved, these have not yet been advanced, mainly as a result of external factors such as planning permission taking longer than was originally anticipated and delays resulting from Covid-19. Several such large commitments are expected to be advanced during the first half of 2021.

Non- Methodist property loans account for over half of the total committed lending, demonstrating the success of the Board's ongoing marketing strategy.

Chair's Statement continued

Deposits

Monies held on deposit with the Company increased during the year. The Board's strategy is to maintain deposits at appropriate levels to support the Company's growing lending activities and manage the associated risks. The Board actively manages the overall level of deposits, including at times restricting the availability of new accounts to new depositors.

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. In addition, it will 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 continued to fall during the year. As a result, a reduction in interest rates for depositors was made in August 2020. Rates charged on the property loans remained unchanged, 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 2021 with the Bank of England consulting with the industry in late 2020 about the possibility of introducing negative interest rates. 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 specifically to review strategic issues in more depth. Such an event occurred in April 2019 and covered issues such as policy development (including a review of lending policy), sustainable lending growth, advertising and marketing, governance (including succession planning) and ensuring that the organisation adapts as appropriate to changing economic times. Although restrictions on physical meetings are currently in place, it is intended to plan a further review meeting during 2021.

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 is monitored by management on a monthly basis.

Clearly, there are a number of unknowns around the extent of the impact that Covid-19 will continue to have on the Company's strategy, including the effect on churches' finances and their property-related projects. The level of the Company's committed, undrawn loans and new loan enquiries remained very strong at the end of 2020, but the lending levels will remain under close review. It is expected that there will be an increased credit risk for the foreseeable future, and this is being considered carefully during the assessment of loan applications.

Chair's Statement continued

Regulatory issues

The Board is liaising with the regulators in relation to new requirements which become effective in 2021 and beyond. Whilst the regulatory demands being made on institutions within the industry are significant, the Company is confident of continuing to fulfil its obligations in this respect.

The Board

During 2020 there was one change in the membership of the Board with the appointment of Mr Richard Price. A continuing system of retirement and re-appointment of Directors by rotation remained fully operational. At recent meetings, the Nomination Committee and the Board have each affirmed that the Board has a wide cross-section of experience and knowledge. Succession planning, including for the Chair, was also reviewed, and it is planned to appoint a new Director during 2021.

I would like to express my very sincere thanks to the Directors for their total commitment to the Company and the Board's responsibilities throughout the past year. Their dedication and expertise have ensured that the Board has been able to carry out its functions smoothly and without delay during the restrictions imposed through the ongoing pandemic.

The Staff

I would like to express the very sincere thanks of the Board to our loyal staff who have continued to deliver the day-to-day work of the Company so efficiently despite the restrictions placed upon this, and many organisations for many months throughout 2020. Their knowledge and effectiveness have always been evident, and enable the Company to look to the future with confidence.

Alan Pimlott
Chair
4 January 2021

Strategic Report

The Directors have pleasure in presenting their Strategic Report for the year ended 31 December 2020.

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; and
- 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. Its strategic planning is focused mainly on lending to Christian churches and associated organisations and ensuring that the Company's business model remains sustainable.

The Board has adopted a 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.

In the ongoing development of the SBP, the Board has placed particular emphasis on the following areas:

a) Governance Review

The Board has continued to review its effectiveness during 2020 and ongoing work includes formalisation and implementation of succession planning and diversity strategy. These will be developed further during 2021.

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Strategic Report continued

b) Company Model

The Board has reviewed the structure 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) 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.

d) Lending Policy

A key aim of the strategy is to promote the Company outside the Methodist Church, primarily to the larger denominations and organisations. Optimum lending levels are identified and monitored in line with the SBP. Thus, the level of drawn loans grew significantly during most of 2020 in line with this strategy, before decreasing shortly before the year-end following the repayment of short-term bridging loans to Methodist circuits to finance manse purchases. Non-Methodist property loans accounted for 58% of the total committed lending at the year-end.

The Board has carefully considered the risks associated with this growth and has adopted limits and early warning indicators which are monitored monthly.

e) 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.

It is recognised that Covid-19 will affect current and potential borrowers for the foreseeable future, both operationally and financially. This may result in reduced demand for the Company's loans and/or increased risk of bad debts. However, to date the effect on the Company's strategy and sustainability has not been significant. This will continue to be monitored carefully by the Board.

Strategic Report continued

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 2021 and beyond

The Board's key aims for 2021 and beyond are to increase the Company's loan book in a controlled way to around £10.3 million by 2024 (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, denomination) are closely monitored within the Company's lending policy.

Growth in deposits is also planned, although at a lesser rate, consistent with the Company's own internal supervision of its optimum level for deposits.

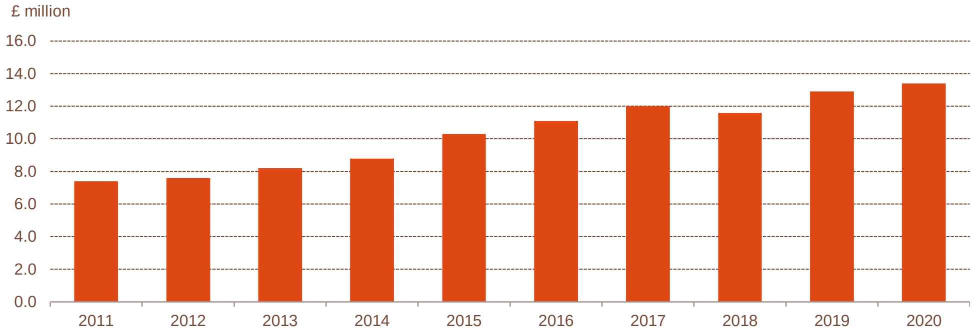
Overall Performance in 2020

During 2020 an operating surplus of £383,429 was achieved, including £328,406 investment gains on the sale of fixed interest securities. The gains (proceeds of £4,123,768 less £3,795,362 carrying value) were realised as a result of the divestment the Company's entire holding of individual corporate bonds in favour of corporate bond funds. This was undertaken to increase diversification without taking on undue risk. Excluding these gains, the operating surplus was around £58,000 lower than that budgeted at the start of the year, largely as a result of lower investment income and bank interest receivable following the onset of the Covid-19 pandemic.

This operating surplus was enhanced by positive net fair value adjustments to the value of the Company's investments during the year. Therefore, the Company's reserves increased by £575,543 during 2020. The graph overleaf shows the capital position over the past ten years.

Strategic Report
continued

Reserves



The Company's Return on Assets for the year ended 31 December 2020 was 1.5% (2019: 3.6%). The year-on-year variance reflects the volatility in the equity markets.

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, primarily the larger denominations, whilst recognising and managing the associated risks.

The table overleaf shows the total value and number of loans over the past three years.

Strategic Report continued

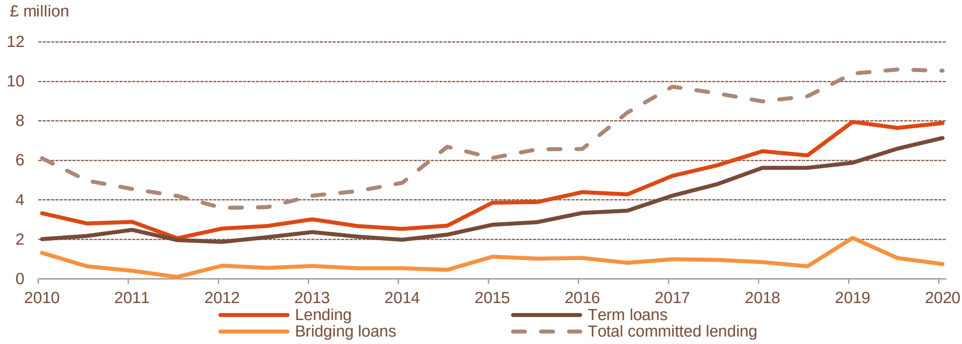
	Amount £m			Number of loans		
	2018	2019	**2020**	2018	**2019**	**2020**
Loan balances at year end						
Term loans	5.6	6.0	**7.2**	35	41	**49**
Bridging loans	0.7	1.9	**0.1**	2	6	**1**
	6.3	7.9	**7.3**	37	47	**50**
Car loans	0.0	0.0	**0.0**	18	8	**5**
Total	6.3	7.9	**7.3**	55	55	**55**
Undrawn loans at year end	2.8	2.3	**2.9**	10	10	**12**
Total drawn and undrawn loans	**9.1**	**10.2**	**10.2**	**65**	**65**	**67**
Loan advances during year						
Property loans	4.0	3.9	**2.6**	21	24	**17**
Car loans	0.0	0.0	**0.0**	2	1	**0**
	4.0	**3.9**	**2.6**	**23**	**25**	**17**

The benefits of the Company's ongoing advertising and marketing strategy are continuing to be realised with a 20% increase in term loan balances during 2020, although this was more than offset by fluctuations in the balance of short-term bridging loans. This is shown in the graph overleaf. 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.

Following the onset of the Covid-19 pandemic, many church buildings have been closed for a significant part of 2020, reducing borrowers' income. Nevertheless, as at 31 December 2020, only three loans were subject to capital repayment extensions and one of these is expected to be repaid in full in early 2021 following the planned sale of property.

With regard to interest rates, those charged by the Company for property loans remained unchanged during the year. The standard rate is 2.90% (2.94% APR including fees) for term loans and 3.90% (4.05% APR including fees) 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.

Total lending to Christian churches and associated organisations



Short term bridging loans account for approximately 1% of the total loans as at 31 December 2020. This proportion is lower than has been the case in the past, e.g. at one exceptional point 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. Money market interest rates available to the Company generally remained low during the year. As a result, the Company's savings rates for all account types remained unchanged.

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.

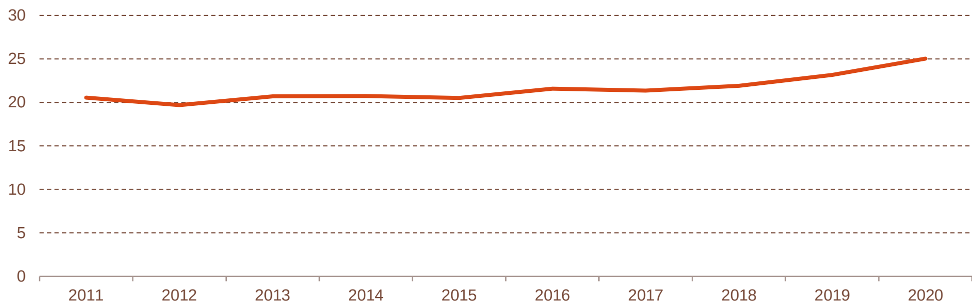
Strategic Report continued

As shown in the graph below, the amount held on deposit with the Company increased during the year with the total as at 31 December 2020 being £25,034,413. Withdrawals during the year represented 11% of the balance of deposits at the start of the year and new deposits and interest applied amounted to 19%.

The Company opened 69 new savings accounts during the year. The total number of accounts held with the Company totalled 3,071 as at 31 December 2020 (3,112 in 2019). The total amount held on deposit as at 31 December 2020 included 45% held in Premium Plus Accounts, 21% in ISAs and 11% in Child Trust Fund (CTF) Accounts.

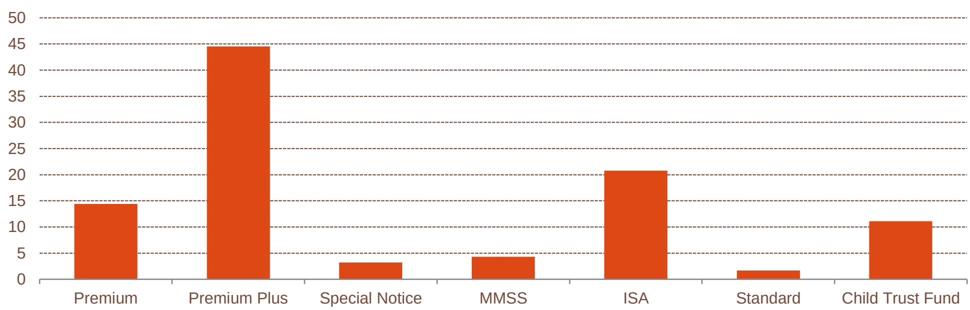
Deposits at year end

£ million



Account Types at year end

% of funds held in accounts



Strategic Report continued

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 2020 the total carrying value of equity shares and debt securities amounted to £17,654,007 (2019: £16,539,540). This comprised £4,246,361 (2019: £3,790,401) dated treasury stocks, £nil (2019: £1,611,317) commercial loan stocks, £4,801,131 (2019: £2,769,026) bond funds and £8,606,515 (2019: £8,368,796) equity shares and similar investments. The Investment Manager held short term funds of £236,135 (2019: £862,056) for investment purposes. In addition, the Company held £13,653,122 of cash and deposits with other UK financial institutions (2019: £10,947,148).

A provision for the amortisation of the premium on dated treasury and commercial loan stocks was made amounting to £96,429 for the year (2019: £69,882). 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 £231,281 (2019: £312,588).

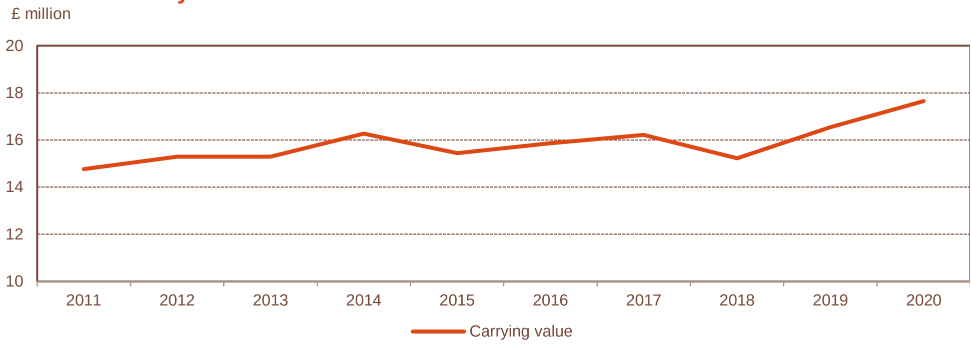
Following the onset of the Covid-19 pandemic, the value of the Company's investment portfolio decreased significantly during the first quarter of 2020. However, this was more than offset by gains in the remainder of the year. Therefore, there was a positive fair value adjustment to the Company's investment portfolio in the year of £318,792 (2019: positive adjustment of £1,402,028) which is shown in the Statement of Income and Retained Earnings.

The change in the total market value of the investments is shown in the graph overleaf.

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.

Strategic Report continued

Investments at year end



Ethical Investment

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.

Despite the above, the Company recognises that it will sometimes be necessary for it to hold collective investment funds in order to secure asset allocation within its investment portfolio. Where this is the case the Company will not have the ability to screen the underlying portfolio of the fund."

The above policy is implemented by the Company's Investment Manager. This is in addition to the Investment Manager's own ethical policies and practices.

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 2020 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 recognises that current circumstances are far from normal and so has budgeted for an operating surplus in 2021 of approximately £21,000, lower than the usual level of approximately £100,000.

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 to which the Company is exposed 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 out 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 SBP sanctioned by the Board.

Strategic Report continued

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 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.

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.

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 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 8.5 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.

The Board has decided to limit the total amount invested in equities (including equity related investment funds, but excluding alternative investment funds e.g. infrastructure) 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 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 the following possible events:

- Business disruption / pandemic (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);
- estimation of exposure to probability and event likelihood for each material risk identified; 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 organisations within the UK only and the total balance on loan at any time is restricted to an internally imposed limit of 70% 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. 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 Director approval in accordance with the Company's lending policy.

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 regulatory minimum 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 is approved by the Board annually.

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 2020. 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 2020, the Board sent out a further Customer Satisfaction Survey to a proportion of its depositors and borrowers. The results are summarised overleaf. A 5-point scale was used, "Strongly Agree" being the best score. None of the 58 replies received implied concern by using "Disagree" or "Strongly Disagree".

Strategic Report continued

Customer survey satisfaction results:

	Depositors (% Agree / Strongly Agree)	Borrowers (% Agree / Strongly Agree)
Happy with overall service provided by the Company	98%	100%
Would recommend the savings account / loan to others	94%	100%

No complaints were received from customers during 2020.

Statement by the Directors in performance of their statutory duties in accordance with section 172(1) of Companies Act 2006

Section 172 of the Companies Act 2006 requires directors of a company to act in the way they consider, in good faith, would most likely promote the success of the company for the benefit of its members and stakeholders as a whole.

In doing this, Section 172 requires the Directors to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term;
- interests of the Company's employees;
- need to foster the Company's business relationships with suppliers, customers and others;
- impact of the Company's operations on the community and environment;
- maintenance of the Company's reputation for high standards of business conduct; and
- need to act fairly as between the different stakeholders of the Company.

In discharging its section 172 duties, the Board has regard to the interests and views of the Company's internal and external stakeholders, including:

- Churches and associated organisations: supporting those customers to achieve their property-related projects, contributing to the churches' mission plans and developing their positive impact within the wider community;
- Other customers: aiming to provide a high level of service to all customers, helping those churches, charities, businesses and individuals that rely on the Company's services;
- Staff: having a workforce that feels valued and supported;
- Suppliers: developing trusted business partnerships that provide value for money and good service;

Strategic Report continued

- Environment: recognising the direct impact that the Company can have on the environment and making responsible choices that align with its values (e.g. via its Ethical Investment Policy);
- Regulators: ensuring the Company adheres to all relevant regulation and maintains an open, transparent relationship with regulators including the Prudential Regulation Authority and Financial Conduct Authority;
- Independent Auditor: ensuring the Company's Independent Auditor is kept aware of all key developments through an open, transparent relationship; and
- HMRC: ensuring the Company is paying all due taxes and complying with relevant reporting requirements.

By considering the Company's purpose, vision and values together with its strategic priorities, the Company aims to make sure its decisions are consistent and equitable. The Company's strategy is reviewed annually by the Board including the considerations listed above.

The Board sets, approves and oversees the execution of the business strategy and related policies, and delegates authority for day-to-day management to its executives. The Board reviews the financial and operational performance of the Company. Monthly management Information is produced shortly after completion of the management accounts and circulated to Audit and Risk Committee members each month and Board members prior to each meeting. It includes the Company's headroom above the minimum internal early warning indicators, limits and regulatory requirements. The Board and its committees also review other areas over the course of the financial year including risk, regulatory compliance, environmental, corporate governance, legal and health and safety matters, as well as stakeholder-related matters, diversity and inclusivity, and corporate responsibility matters.

This ensures that the Board has an overview of engagement with stakeholders and complies with our Section 172 duty to promote the success of the Company

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 23 February 2021

Directors' Report

The Directors have pleasure in presenting their report and the financial statements of the Company for the year ended 31 December 2020.

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 2020 No.	At 31 Dec 2019 No.	**At 31 Dec 2020 £**	At 31 Dec 2019 £
Alan Pimlott	**143**	143	**–**	–
Peter Mills	**175**	175	**–**	–
James Booth	**–**	–	**–**	–
Jeremy Burchill	**200**	200	**–**	–
Paul Ferguson	**–**	–	**–**	–
Peter Forward	**200**	200	**–**	–
Anne Goodman	**–**	–	**–**	–
Christopher Jarratt	**61**	61	**–**	–
Richard Price (appointed 9 March 2020)	**–**	–	**–**	–
Andrew Slim	**166**	166	**76,820**	76,027
	945	945	**76,820**	76,027

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 Board of Directors, which meets at least five times a year, 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

Directors' Report continued

Authority (PRA), the Financial Conduct Authority (FCA) and the external auditor are considered and implemented as appropriate. Other Directors are invited to attend its meetings and often do so. 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, Paul Ferguson and Peter Mills) which was established to develop a recruitment and remuneration strategy together with 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 22.30 pence per fully paid A share and £8.92 per fully paid B share of the Company, payable on 30 April 2021. (Detailed in note 10 of the financial statements).
- Christopher Jarratt, Richard Price 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 2021 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 (2019: 7 charities):

	2020 **£**	2019 £
Charitable donations	**15,750**	18,200

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.

Auditor

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as they are aware, there is no relevant audit information of which the Company's independent auditor is unaware; and
- they have taken all steps that they ought to have taken as a Director 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 23 February 2021

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

Opinion

We have audited the financial statements of Methodist Chapel Aid Limited (the ‘Company’) for the year ended 31 December 2020 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).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 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

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

- Reviewing the impact of any potential bad debts on loans advanced as explained fully within key audit matters section of our report. We concur with management that the loan book does not show signs of impairment and have concluded that management has adequate procedures in place to identify loans that may become impaired over the longer term.
- Reviewing headroom in regulatory capital. This was found to be sufficient.
- Reviewing and evaluating the assumptions and scenarios used within the stress testing performed by management as part of the PRA regulatory requirements and reviewed the results of the impact of the stresses on the ability of the Company to continue on a going concern basis. The assumptions used within the stress testing appear reasonable based on our knowledge of the Company and its activities. The results of the stress testing showed that even under severe stresses, the Company could continue as a going concern for the foreseeable future.

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

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

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 2020 the property loan book totalled £7.30m (2019: £7.86m) 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 to 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 majority of the Company's lending is secured on property and the company has very limited historical issues with arrears. At the year-end there are a small number of loans that have been extended and there is a perceived higher default risk as a result of the ongoing Covid-19 pandemic. 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 and this is unchanged from the previous year.	Our audit work included but was not restricted to the following: • We understood and assessed the loan application procedure including, where applicable, 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 the 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.

Based on our professional judgement we deemed materiality for the financial statements as a whole for the year ended 31 December 2020 to be £268,000 (2019: £318,000). For 31 December 2020, the benchmark used for this calculation was 2% of net assets. We believe net assets to be akin to regulatory capital and therefore a key performance measure of the Company. As the bank is designated as a public interest entity, we consider a benchmark of 2% to be appropriate.

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 £13,000. 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.

Opinions 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.

Ability to Detect Irregularities

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

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements based on our understanding of the Company and through discussion with the Directors and other management (as required by auditing standards). We identified the principal risks of non-compliance with laws and regulations related to the Prudential Regulation Authority (PRA) regulations and we considered the extent to which non-compliance might have a material effect on the financial statements

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

We also had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. Audit procedures performed included:

- Discussions with the PRA as part of the annual supervisory review and a review of their key correspondence with the Company;
- Discussions with management, enquiring over non-compliance with laws, regulations and fraud;
- Reviewing internal audit reports;
- Reviewing minutes of all Board meetings and Audit and Risk Committee meetings and attendance at two Audit and Risk Committee meetings each year; and
- Review of transactions (including journals) using data analytic software.

There are inherent limitations in the audit procedures described above. We did not identify any such irregularities however as with any audit, there remained a higher risk of non-detection of irregularities due to fraud, as these may involve deliberate concealment, collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

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 eleven 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 Company with assistance with the preparation of the financial statements from management accounting records.

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

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

Use of Our Report

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

Suzanne Lomax BA FCA
(Senior Statutory Auditor)

For and on behalf of

Beever and Struthers
Chartered Accountant & Statutory Auditor

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

19 March 2021

Statement of Income and Retained Earnings
For the year ended 31 December 2020

	Note	**2020** **£**	2019 £
Interest receivable – on loans	3	**238,045**	216,819
Interest receivable – on debt securities	3	**310,571**	321,383
Interest receivable – on National Savings and bank deposits	3	**42,272**	71,244
Interest payable to depositors		**(218,608)**	(229,881)
Interest payable - amortisation of debt securities	12	**(96,429)**	(69,882)
Dividend income from equity shares	3	**190,548**	259,323
Investment gains on debt securities	12	**328,406**	4,366
Fees and commissions payable to Investment Manager		**(43,050)**	(43,816)
Other operating income	4	**2,924**	5,692
Administrative expenses – staff costs	7&8	**(205,751)**	(198,443)
Administrative expenses – other		**(150,767)**	(162,438)
Depreciation	11	**(14,732)**	(17,132)
Operating surplus	5	**383,429**	157,235
Fair value adjustment to investments	12	**318,792**	1,402,028
Surplus on ordinary activities before taxation		**702,221**	1,559,263
Tax on surplus on ordinary activities	9	**(125,620)**	(259,537)
Surplus for the financial year and total comprehensive income		**576,601**	1,299,726
Dividends paid and payable	10	**(1,058)**	(1,041)
Retained earnings at the start of the year		**12,866,249**	11,567,564
Retained earnings at the end of the year		**£13,441,792**	£12,866,249

All the activities of the Company are from continuing operations.

The notes on pages 38 to 58 form part of these financial statements.

Statement of Financial Position
As at 31 December 2020

	Note	**2020** **£**	2019 £
Assets			
Tangible fixed assets	11	**7,852**	22,084
Investments	12	**17,654,007**	16,539,540
Cash and bank balances		**13,653,122**	10,947,148
Loans and advances to customers	13	**7,314,586**	7,888,087
Prepayments, accrued income and other assets	13	**74,764**	110,945
Investments held for short term purposes	14	**236,135**	862,056
Total Assets		**38,940,466**	36,369,860
Liabilities			
Customer Accounts	15	**25,034,413**	23,169,408
Other Liabilities	15	**167,071**	75,034
Total Liabilities		**25,201,484**	23,244,442
Provisions			
Taxation including deferred tax	16	**295,993**	257,972
Net Assets		**£13,442,989**	£12,867,446
Shareholders' Funds			
Called up equity share capital	19	**1,197**	1,197
Reserves		**13,441,792**	12,866,249
		£13,442,989	£12,867,446

These financial statements were approved by the Board of Directors and authorised for issue on 23 February 2021, and are signed on behalf of the Board by:

Alan Pimlott
Chair

Christopher Jarratt
Director

Company registration number: 30546

The notes on pages 38 to 58 form part of these financial statements.

Statement of Cash Flows
For the year ended 31 December 2020

	2020 £	2019 £
Cash flows from operating activities		
Surplus for the financial year	**576,601**	1,299,726
Adjustments for:		
Depreciation of tangible assets	**14,732**	17,132
Amortisation of investments	**96,429**	69,882
Fair value adjustment to investments	**(318,792)**	(1,402,028)
Tax on surplus on ordinary activities	**125,620**	259,537
Accrued income/expenses	**23,101**	4,021
Changes in:		
Trade and other debtors	**19,028**	(15,918)
Trade and other creditors	**1,890**	(132)
Loans advanced to customers	**573,501**	(1,572,823)
Customer accounts	**1,865,005**	1,271,804
Cash absorbed by operations	**2,977,115**	(68,799)
Tax paid	**(3,400)**	(1,622)
Net cash used in operating activities	**2,973,715**	(70,421)
Cash flows from investing activities		
Purchase of tangible assets	**(500)**	(7,158)
Purchase of investments	**(7,715,257)**	(1,963,524)
Proceeds from sale of investments	**6,823,153**	1,974,744
Net cash from investing activities	**(892,604)**	4,062
Cash flows from financing activities		
Dividends paid	**(1,058)**	(1,041)
Net cash used in financing activities	**(1,058)**	(1,041)
Net increase/(decrease) in cash and cash equivalents	**2,080,053**	(67,400)
Cash and cash equivalents at beginning of year	**11,809,204**	11,876,604
Cash and cash equivalents at end of year	**£13,889,257**	£11,809,204
Consisting of		
Cash	**13,653,122**	10,947,148
Short term liquid investments	**236,135**	862,056
Cash and cash equivalents at end of year	**£13,889,257**	£11,809,204

The notes on pages 38 to 58 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.

The financial statements are prepared in Sterling, which is the functional currency of the entity.

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 (2019: £nil) was recognised in respect of property loans totalling £7,301,521 (2019: £7,860,512) of which £1,160,251 (2019: £1,039,071) 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 £335 (2019: £707) has been recognised in respect of car loans totalling £13,400 (2019: £28,282).

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.

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.

Notes to the Financial Statements continued

2 Accounting Policies continued

Revenue and Expenses Recognition continued

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.

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.

Notes to the Financial Statements continued

2 Accounting Policies continued

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.

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.

Notes to the Financial Statements continued

2 Accounting Policies continued

Provisions continued

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.

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.

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.

Notes to the Financial Statements continued

2 Accounting Policies continued

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

	2020 **£**	2019 £
Loan administration fees received and sundry income	**2,924**	5,692

5 Operating Surplus

Operating surplus is stated after charging / (crediting):

	2020 **£**	2019 £
Depreciation of tangible assets	**14,732**	17,132
Amortisation of investments	**96,429**	69,882
Release of bad debt provision (car loans)	**(372)**	(525)
Operating lease costs - land and buildings	**7,200**	6,242
Operating lease costs - other equipment	**2,679**	3,861

6 Auditor's Remuneration

	2020 **£**	2019 £
Fees payable for the audit of the financial statements (exclusive of VAT)	**15,500**	15,000
Fees payable to the Company's auditor and its associates for other services:		
Other non-audit services (exclusive of VAT)	**-**	2,600

Notes to the Financial Statements continued

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:

	2020 No.	2019 No.
Administrative staff	**2**	2
Management staff	**1**	1
	3	3

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

	2020 £	2019 £
Wages and salaries	**82,843**	80,935
Social security costs	**3,113**	6,654
	85,956	87,589

8 Directors' Remuneration

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

	2020 £	2019 £
Remuneration	**111,125**	102,657
Social security costs	**8,670**	8,197
Expenses	**1,475**	7,625
	121,270	118,479

The above aggregate remuneration includes the Company's one executive Director (2019: 1) and nine non-executive Directors (2019: 8). The non-executive Directors are not involved in the daily management or operations of the Company.

Notes to the Financial Statements continued

9 Tax on Surplus on Ordinary Activities

Major components of tax expense

	2020 £	2019 £
Current tax:		
UK current tax expense	**89,098**	4,899
Adjustments in respect of prior periods	**(1,499)**	1,622
Total current tax	**87,599**	6,521
Deferred tax:		
Origination and reversal of timing differences	**38,021**	253,016
Tax expense on surplus on ordinary activities	**125,620**	259,537

Reconciliation of tax expense

The tax assessed on the surplus on ordinary activities for the year is the same as (2019: same as) the standard rate of corporation tax in the UK of 19% (2019: 19%).

	2020 £	2019 £
Surplus on ordinary activities before taxation	**702,221**	1,559,263
Surplus on ordinary activities by rate of tax	**133,422**	296,260
Items not allowable for tax purposes	**2,506**	1,642
Exempt dividend income	**(36,204)**	(49,271)
Non-chargeable investment gains	**-**	-
Unrealised non-chargeable investment loss/(gains)	**27,395**	9,284
Adjustments to tax charge in respect of previous periods	**(1,499)**	1,622
Tax expense on surplus on ordinary activities	**125,620**	259,537

Notes to the Financial Statements continued

10 Dividends

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

	2020 £	2019 £
Ordinary A shares at 22.10p (2019: 21.75p)	**908**	893
Ordinary B shares at £8.84 (2019: £8.70)	**150**	148
	1,058	1,041

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

	2020 £	2019 £
Ordinary A shares at 22.30p (2019: 22.10p)	**916**	908
Ordinary B shares at £8.92 (2019: £8.84)	**152**	150
	1,068	1,058

11 Tangible Assets

	Leasehold Improvements £	Office Equipment £	Computer Equipment £	Total £
Cost				
At 1 January 2020	27,857	10,102	88,851	126,810
Additions	-	-	500	500
Disposals	-	-	-	-
At 31 December 2020	**27,857**	**10,102**	**89,351**	**127,310**
Depreciation				
At 1 January 2020	27,857	9,491	67,378	104,726
Charge for the year	-	258	14,474	14,732
Disposals	-	-	-	-
At 31 December 2020	**27,857**	**9,749**	**81,852**	**119,458**
Net book value				
At 31 December 2020	**–**	**353**	**7,499**	**7,852**
At 31 December 2019	–	611	21,473	22,084

Notes to the Financial Statements continued

12 Investments

	Debt and fixed income securities £	Equity investments £	Total £
Cost			
At 1 January 2020	8,483,332	8,368,796	16,852,128
Additions	6,556,910	1,158,347	7,715,257
Disposals	(6,018,509)	(982,380)	(7,000,889)
Fair value adjustment	257,040	61,752	318,792
At 31 December 2020	**9,278,773**	**8,606,515**	**17,885,288**
Amortisation			
At 1 January 2020	312,588	–	312,588
Charge for year	96,429	–	96,429
Disposals	(177,736)	–	(177,736)
At 31 December 2020	**231,281**	**–**	**231,281**
Net book value			
At 31 December 2020	**9,047,492**	**8,606,515**	**17,654,007**
At 31 December 2019	8,170,744	8,368,796	16,539,540

The investments held at amortised cost have a market value of £4,563,238 (2019: £5,900,990) (including interest accrued of £19,337 (2019: £34,686)). The investments held at fair value have a historical cost of £11,129,261 (2019: £8,953,456).

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 £295,000 (2019: £255,000) assuming a tax rate of 19% (2019: 19%).

During the year, the Company sold 17 debt securities (2019: 1 debt security), which had been held at amortised cost, as follows:

	2020 £	2019 £
Proceeds	**4,183,941**	578,255
Cost	**(3,973,097)**	(574,869)
Amortisation to date of sale	**177,735**	3,512
	388,579	6,898
Accrued interest at date of sale	**(60,173)**	(2,532)
Investment gains on debt securities	**328,406**	4,366

Notes to the Financial Statements continued

13 Debtors

Loans and advances to customers

	2020 £	2019 £
Loans and advances to customers	**7,314,586**	7,888,087

	At 31 Dec 2019 £	Advanced £	Repaid £	Released/ (provided) £	At 31 Dec 2020 £
Property loans - secured	6,821,441	1,520,800	(2,200,971)	–	**6,141,270**
Property loans - unsecured	1,039,071	1,089,125	(967,945)	–	**1,160,251**
Property loans - total	7,860,512	2,609,925	(3,168,916)	–	**7,301,521**
Car loans - unsecured	28,282	-	(14,882)	–	**13,400**
	7,888,794	2,609,925	(3,183,798)	–	**7,314,921**
Provision for bad debts	(707)	–	–	372	**(335)**
	7,888,087	2,609,925	(3,153,798)	372	**7,314,586**

Of the unsecured property loans shown above, £55,000 (2019: £370,000) relate to short term bridging loans for the purchase of clergy housing. In such cases a solicitor's undertaking has been obtained to repay the proceeds of the house sale to the Company up to the amount of the loan outstanding.

Analysis of maturity of loans and advances to customers

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

	2020 £	2019 £
Due within 3 months	**57,672**	488,356
In more than 3 months but not more than 1 year	**672,303**	588,968
In more than 1 year but not more than 5 years	**2,328,530**	1,827,551
In more than 5 years	**4,256,416**	4,983,919
Less provision for bad debts	**(335)**	(707)
	7,314,586	7,888,087

Notes to the Financial Statements continued

13 Debtors continued

Loans and advances to customers continued

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.

Prepayments, accrued income and other assets

	2020 **£**	2019 £
Prepayments and accrued income	**74,764**	110,945

14 Investments held for short term purposes

	2020 **£**	2019 £
Funds held short-term by Sarasin & Partners LLP for investment	**236,135**	862,056

15 Liabilities

Customer Accounts

	2020 **£**	2019 £
Customer Accounts	**25,034,413**	23,169,408

Amounts standing to the credit of depositors:

	2020 **£**	2019 £
At 1 January 2020	**23,169,409**	21,897,604
Received	**4,483,678**	3,416,330
Withdrawn	**(2,618,674)**	(2,144,526)
At 31 December 2020	**25,034,413**	23,169,408

Notes to the Financial Statements continued

15 Liabilities continued

Analysis of maturity of customer accounts

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

	2020 £	2019 £
In one year or less or repayable on demand	**21,524,571**	19,730,703
In more than one year but not more than two years	**897,232**	869,061
In more than two years	**2,612,610**	2,569,644
	25,034,413	23,169,408

Other Liabilities

	2020 £	2019 £
Corporation tax	**89,098**	4,899
Other taxation and social security	**8,237**	6,347
Accruals and deferred income	**69,736**	63,788
	167,071	75,034

16 Deferred Tax

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

	2020 £	2019 £
Included in provisions (note 17)	**295,993**	257,972

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

	2020 £	2019 £
Excess of taxation allowances over depreciation of fixed assets	**921**	3,500
Provision for fair value adjustments to investments	**295,072**	254,472
	295,993	257,972

Notes to the Financial Statements continued

17 Provision

	Deferred tax (note 16) £
At 1 January 2020	257,972
Charge against provision	38,021
At 31 December 2020	295,993

18 Financial Instruments

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

Financial assets:

	2020 £	2019 £
Financial assets measured at fair value through income or expenditure		
– Investments	**13,407,647**	11,137,822

Financial assets that are debt instruments measured at amortised cost		
– Investments	**4,246,360**	5,401,718
– Cash and balances at central banks	**13,653,122**	10,947,148
– Cash held in investment portfolio	**236,135**	862,056
– Loans and advances to customers:		
– Property loans	**7,301,521**	7,860,512
– Car loans	**13,065**	27,575
	25,450,203	25,099,009

Note 12 includes details of other financial assets held at amortised cost.

Financial liabilities:

	2020 £	2019 £
Financial liabilities measured at amortised cost		
– Customer deposit accounts	**(25,034,413)**	(23,169,408)

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

Notes to the Financial Statements continued

18 Financial Instruments continued

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

Credit Risk

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

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 £2.9 million (2019: £2.3 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, £6.2 million (2019: £6.8 million) of the Company's £7.3 million (2019: £7.9 million) property loans were secured by legal charge (or equivalent) on church buildings or manses. In addition, for unsecured bridging loans (2020: £0.1 million, 2019: £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 £1.0 million (2019: £0.7 million) are generally smaller unsecured loans.

As at 31 December 2020 the Company had two secured loans (2019: 1 loan) and one unsecured loan (2019: 1 loan) which were neither past due nor impaired but for which capital repayment extensions had been agreed. The capital balance of these loans totalled £426,000 (2019: £514,097). Following completion of the sale of property by the borrowers, one of these loans (2019: 2 loans) totalling £55,000 (2019: £514,097) is expected to be fully repaid in the first few weeks of 2021, with the remaining two loans (2019: nil) resuming scheduled capital repayments later in the year. In all these cases the interest has been received on a timely basis.

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

	As at 31 December 2020		As at 31 December 2019	
	Balance overdue £	**Balance overdue £**	Balance overdue £	Balance of loans £
Up to 1 month overdue	**17,276**	**224,000**	69,508	1,232,081
Over 1 month overdue	**–**	**–**	–	–

Notes to the Financial Statements continued

18 Financial Instruments continued

Credit Risk continued

The Company's property term loans are repayable in semi-annual instalments on 30 June and 31 December each year. The above figures represent repayments that were due on 31 December but were received in the first half of January, i.e. these relate to short term timing differences only.

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 £335 (2019: £707) has been included in respect of the £13,400 (2019: £28,282) balance of unsecured car loans.

The Company has not taken possession of any collateral it holds as security for loans during 2020 (2019: 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 2020 was 6 months (2019: 6 months).

In addition, the Company invests in UK government gilts, equities and major company corporate bonds via its Investment Manager, Sarasin & Partners LLP. The Investment Manager operates within parameters and limits agreed by the Board. The corporate bonds are held through a collective investment undertaking considered by the Investment Manager to be low risk and well diversified.

As at 31 December 2020 and at 31 December 2019 none of the treasury assets were past due or impaired.

Notes to the Financial Statements continued

18 Financial Instruments continued

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-realisable 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 below:

	Total £	Less than 1 month (*) £	1 - 3 months £	3 months to 1 year £	1 to 5 years £	More than 5 years £
At 31 December 2020						
Customer deposits	**25,034,413**	13,083,849	11,147,101	–	803,463	–
Other liabilities	**167,071**	77,973	–	89,098	–	–
	25,201,484	13,161,822	11,147,101	89,098	803,463	–
At 31 December 2019						
Customer deposits	**23,169,408**	13,398,946	8,966,999	–	803,463	–
Other liabilities	**75,034**	70,135	–	4,899	–	–
	23,244,442	13,469,081	8,966,999	4,899	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 they become 18 years of age and this will occur gradually over the period until 2029.

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.

18 Financial Instruments continued

Market Risk continued

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.

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 2020 (2019: 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.

Notes to the Financial Statements continued

18 Financial Instruments continued

Market Risk continued

Interest Rate Risk continued

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:

	2020 £'000	2019 £'000
Net present Value Sensitivity to:		
Positive Shift (+2%)	**(569)**	(665)
Negative Shift (-2%)	**691**	822

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.

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:

	2020 £'000	2019 £'000
Reduction in surplus	**82**	87

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.

Notes to the Financial Statements continued

18 Financial Instruments continued

Market Risk continued

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 investments would result in a negative movement in the unrealised gain/loss on these investments totalling £2.2 million (2019: £2.1 million). The Company's capital would decrease by the same amount but would remain well above the regulatory minimum.

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 or the amount calculated under the Pillar 1 plus Pillar 2A requirements, whichever is the higher.

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 2020 (and 2019).

Notes to the Financial Statements continued

19 Called Up Share Capital

Issued, called up and fully paid:

	2020		2019	
	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:

	2020 £	2019 £
Not later than 1 year	**10,595**	3,182
Later than 1 year and not later than 5 years	**24,266**	10,139
Later than 5 years	**-**	277
	34,861	13,598

21 Related Party Transactions

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% (2019: 30%) of the share capital of the Company. It holds these shares for the charitable purposes of the Methodist Church generally.

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 2020
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
Richard J Price MA *(from 9 March 2020)*
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
Beever and Struthers
Chartered Accountant & Statutory Auditor
St George's House
215-219 Chester Road
Manchester
M15 4JE

Principal Banker
HSBC Bank Plc
City of London Branch
60 Queen Victoria Street
London
EC4N 4TR

Solicitor
Harrowells LLP
1 St Saviourgate
York
YO1 8ZQ

Investment Manager
Sarasin & Partners LLP
Juxon House
100 St Paul's Churchyard
London
EC4M 8BU

Internal Auditor
RSM Risk Assurance Services LLP
Fifth Floor
Central Square
29 Wellington Street
Leeds
LS1 4DL

MCA
Funding for Churches

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Registered office
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